20TH CENTURY

BOOKKEEPING & ACCOUNTING

COMPLETE.

C. A. Glover 11/21/13.

20th Century Bookkeeping
and
Accounting.

A TREATISE ON MODERN BOOKKEEPING, ACCOUNTING, AND BUSINESS CUSTOMS, AS ILLUSTRATED IN THE "BUSINESS TRANSACTIONS" WHICH ACCOMPANY THIS WORK.

THE ONLY SYSTEM OF BOOKKEEPING IN WHICH THE TRANSACTIONS, AS WELL AS THE BUSINESS PAPERS THAT ILLUSTRATE THEM, ARE IDENTICAL WITH THOSE IN THE BUSINESS WORLD.

FOR USE IN ALL SCHOOLS THAT TEACH BOOKKEEPING AND ACCOUNTING.

BY JAMES W. BAKER.
ASSISTED BY
COMMERCIAL TEACHERS AND PRACTICING ACCOUNTANTS.

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PREFACE.

YEARS of experience in the office and schoolroom have convinced the author that the best method of teaching the principles of bookkeeping and accounting, that they may be permanently fixed in the mind of the student so that he may be able to put them into practice, is by having him record business transactions. These transactions must be a reproduction and not an imitation. The student must be led to feel that the results he obtains are just as important as those obtained by the bookkeeper or accountant. When presented in this manner, the student will learn to appreciate the importance of a correct record and accurate results.

The object of this work is to teach the student the fundamental principles of bookkeeping and accounting, the practical application of these on the various books of original entry, and many of the important short cut methods used by modern bookkeepers and accountants. He learns this by recording business transactions which are a reproduction of those which occur in business. These are represented to him by business papers which are also a reproduction of those used in business. Every paper is reproduced in detail that the student may get the correct idea of the form and use of the paper.

To suit the conditions that exist in the different schoolrooms and to permit the teacher to make his course as long or short as desired, the work is divided into four sets, each of which is separate and distinct. While it is necessary to complete the four sets in order that the student have a thorough knowledge of the subject, yet he may discontinue at the end of any one set with this knowledge being complete so far as he has advanced.

The first set is intended to teach the student the fundamental principles of bookkeeping and accounting, and the practical application of these on the various books of original entry. What we mean by this is the fact that there are debits and credits, how they affect accounts, the proper classification of accounts, the best method of recording transactions in the journal, sales book, cash book and purchases book; the method of posting or transferring from books of original entry, the correct forms of the Financial, Trading, and Profit and Loss statements, and the method of closing the ledger by the use of red ink. In addition to this the student is taught the importance of business forms and their relation to business transactions.

The second set is intended to teach the principles of partnership bookkeeping, the advantages of special ruling in the cash book, the carbon copy sales book, a popular form of the purchases book and other short cut methods helpful to the bookkeeper. He is taught the advantage of special accounts with expense, property purchased for use in the business and the correct classification of these. The method of closing the ledger by journal entries is thoroughly explained and illustrated and the student is given sufficient practice to enable him to appreciate the advantages of this method. Supplementary exercises are introduced to illustrate the principles learned and to enable the student to better understand them.

The third set is intended to teach the principles of corporation bookkeeping, the special accounts required in a corporation set of books, special ruling in all books of original entry, special or controlling accounts, the modern form of the cash journal and the advantage of loose leaf books. By transactions in the work and supplementary exercises, he is taught the correct entry to make when two corporations consolidate and the stock of one is issued to stockholders of the other in payment for the stock they hold.

The student who has completed the three sets has a broader knowledge of bookkeeping and accounting than can be obtained from any other complete course in bookkeeping; hence he is better qualified to do office work.

The fourth set teaches the principles of cost accounting as practically applied in modern business, a subject that has never before been presented to the student of bookkeeping and accounting. The transactions are so arranged that the student devotes practically all his time to the cost feature, which enables him to obtain a thorough understanding of the principles in a reasonably short time.

The student learns the principles of bank bookkeeping by acting as banker for those students who are recording the transactions outlined in the bookkeeping course. In this capacity he must record transactions similar to those recorded by the various clerks in the bank. The course is especially arranged to conduct a bank in connection with it. This arrangement not only gives the student an opportunity to learn bank bookkeeping in a practical manner, but relieves the teacher of much unnecessary work, such as entering deposits, issuing New York Exchange, certifying checks, entering discounted notes, etc. It is not necessary to conduct a bank, but the teacher is advised to do so, if his class is large enough to make sufficient transactions with the bank to keep at least one student busy recording them.

Efficiency in office routine means the greatest amount of work with the best results at the least cost. As applied to the work of the bookkeeper or accountant, it means the ability to record the greatest number of transactions with correct results in the least possible time. While the value of the services of the bookkeeper or accountant depends largely upon his knowledge of the business and his ability to record the largest number of transactions, yet a thorough knowledge of the principles of accounting is necessary in order that the correct results may be obtained. The trouble with the majority of students of bookkeeping and accounting is that they have the impression that a knowledge of the principles is sufficient. While this knowledge is necessary, yet the ability to put it into practice is even more necessary. The arrangement of this work is to teach the student the importance of each, and give him such a thorough drill that he will have confidence in his ability to do the work and get the correct results.

The teacher must know that the student thoroughly understands all of the principles explained in the text. For this reason we have prepared supplementary exercises which can not be worked out by the student unless he does understand the principles. He is also very carefully questioned on each section of the work, the correct answers of which are additional evidence to the teacher that he understands the explanations.

In addition to teaching the student the practice of recording transactions with the best results, the accounting feature is presented in a practical way, one which will enable him to appreciate the importance of this as well as the correct record. We appreciate the fact that the student who has completed a course in the commercial department of any school is not an experienced bookkeeper and accountant, but believe that he should not be graduated until he understands the practice and theory so thoroughly that he will be prepared to meet the conditions required by modern accounting.

The student who has worked out these sets need not hesitate to accept a position in any office. He can feel sure that his work will meet with the approval of practical bookkeepers and accountants, and that it will not be necessary for his employer to secure the services of an expert accountant in order to outline his books according to the principles of modern accounting.

We have to thank the many commercial teachers, bookkeepers, accountants, and business men who have so kindly assisted us in preparing the sets and thus enabling us to offer to the teaching public a system of bookkeeping and accounting that meets the requirements of modern business.

THE PUBLISHER.

INTRODUCTION.

IN HIS primitive state, the needs of man were very few and each individual was enabled to supply all his wants, thus being entirely independent of his fellow beings. But with the growth of civilization there was a corresponding increase in those things necessary to man's comfort and enjoyment, in consequence of which he has become so dependent upon those around him that at this period it would be almost impossible for him to exist by the fruits of his own labor. Thus we find this great world inhabited by millions of human beings, each working and laboring for both himself and those around him. To undertake a description of the various means by which each of these individuals obtains those things necessary for his comfort and enjoyment, would require more time and space than we care to devote to this subject; therefore, for convenience, we will divide them into three classes; viz., Employees, Professional and Business Men.

An Employee is one who, for a compensation, sells his time (services) to another, usually at a fixed price. Among this class are laborers, mechanics, carpenters, engineers, conductors, clerks, etc.

A Professional Man is one who has educated himself for some particular line of work, receiving a compensation for such services, usually of a mental nature, as he may be able to render others Among this class we find physicians, lawyers, judges, ministers, teachers, bookkeepers, stenographers, etc.

A Business Man is one who has invested property in some enterprise, hoping to be able to increase the value of the same by exchanges he may make. He supplies those in need of the property he sells or services he renders. The successful business man devotes his time, as well as his property, to the enterprise and thus derives a greater profit.

Investments are made that the demands of the people may be supplied, and since these demands are of various kinds, it is evident that there must be a number of classes of business. For convenience these are divided into nine different classes; viz., Mining, Manufacturing, Mercantile, Transportation, Communication, Publication, Insurance, Banking and Farming.

Mining. Those engaged in this class of business purchase, with the property invested, the land in which the desired mineral ore is situated, buy machinery, and employ the necessary help to remove the same and get it ready for the market. The profit is derived from getting a better price for their product than the cost of producing the same. This class of business men usually sells to the manufacturer or merchant and not to consumers.

Manufacturing. Those engaged in this business take the raw material as it comes from the mines or other original sources, and change its form that it may be better suited to the need of the consumer. The iron ore, as it comes from the mines, would be of little use were it not for the changes brought about by the furnaces and rolling mills. The money invested is used in purchasing a site and buildings, equipping them with machinery, and employing the necessary workmen. That the business may be profitable, the goods manufactured are sold at a larger price than the cost of the raw material, labor and other expenses. The manufacturer usually sells to the merchant or other manufacturer, but in some cases he deals directly with the consumer. Practical examples of this line of business are rolling mills, steel mills, cotton, woolen, shoe and clothing factories, gas and electric plants, lumber mills, etc.

Mercantile. In this business the property invested is exchanged for the various kinds of merchandise, produce, etc., that the public demands, either as a means of support or as a luxury

These goods are sold at a higher price than that paid for them, hence produce a profit to the seller. There are five general classes of merchants: Wholesale, Jobber, Broker, Commission and Retail.

The Wholesale Merchant keeps a permanent stock of goods at a fixed place of business and solicits, through various means, the trade of the retail merchant.

The Jobber does not, as a rule, carry in stock the goods which he sells, but after he has secured a purchaser, he has the order filled by some wholesale firm or manufacturer. Sometimes he buys a large quantity of a certain class of goods at a reduced price, then solicits the trade of his customers until they are sold. No definite explanation can be given of this business, as it is conducted in so many different ways, but the above will serve as an illustration. The Jobber deals with merchants and not consumers.

The Merchant Broker is one who acts as an agent for some large manufacturing concern, having charge of the sales of its products in some particular locality. He does not handle the goods, but sells direct from the factory, or keeps the goods in storage, to be delivered as sold. Usually all collections are made direct from the house which he represents. As in the case of the jobber, the explanation given is not absolute, but only serves as an illustration, the customs and rules varying in different parts of the country.

The Commission Merchant sells the goods of others that are consigned to him. He has a permanent place of business, and like the wholesale merchant, keeps a stock on hand at all times. Unlike him, though, he does not purchase these, but only acts as agent for the owner. His business differs from that of the broker in that he represents any one who may have goods to sell. While all classes of goods are sold by the commission merchant, fruits, vegetables and produce form the larger part. His profit, like that of the jobber, consists in a certain per cent of the sales. They are similar in that they both sell to the retail merchant and not to the consumer.

The Retail Merchant is the one who places the goods into the hands of the consumer. His purchases are made from the different classes of merchants, mines, manufacturers and farmers. His profits arise from buying at one price and selling at another. There are more persons engaged in the mercantile business than in all others combined, and the majority of these persons are retailers.

A Mercantile House takes its name from the class of goods it sells. Thus the grocer sells groceries and provisions; the shoe merchant, shoes; the clothier, clothing; etc.

Transportation. All the commodities necessary for the support of any one locality can not be produced or grown there; therefore, some means must be provided for transporting them. As a result of this, capitalists have supplied this demand by providing the means. Before the introduction of steam, this was brought about by building boats to navigate the natural streams, lakes and oceans, and where these did not exist, by constructing canals. With the practical application of steam and electricity, another very important means of transportation has been added. The investment in this business is used in providing the necessary vessels or cars, in paying the force of employees to operate them, and in meeting other expenses. Unless they can get a greater amount for transporting the goods than the cost of carrying them, they will be doing a losing business. They deal with all classes of people who have property to transport or wish to use their cars or vessels as a means of traveling. Railroads, express companies, electric lines, steamboat companies and steamships are the principal means of transportation at the present time.

Communication. In all civilized countries the government, through its mail system, has provided a means by which its subjects may, from a distance, communicate one with another. But this is far too slow for the rush of modern business, and, as is always the case, when there is a demand there is a means of supplying it. For this purpose we now have the telegraph and telephone. These companies, for a consideration, will transport messages or allow communication over their lines, thus supplying the demands of the public. The capital invested is used in purchasing poles, wires, a right of way, and in employing the help necessary to construct the line and serve the public. The amount charged for services is more than the cost of operating the line, this excess being the profit.

Publication. With the advancement of civilization, comes the desire to know the events trans-

piring in different parts of the world, as well as local happenings. The publication of books, magazines, newspapers, etc., not only supplies the above demand but also provides reading matter for educational purposes and amusement. Recognizing the fact that the public will always pay well for these things, business men have purchased printing presses, paper and other necessary material, employed those skilled in this class of labor and produced those books, papers and magazines for which there is a demand. One of the chief sources of profit, to those engaged in newspaper and magazine publication, is the advertising. Aside from this, the publisher must receive more for his publications than the cost of material and labor essential to their production.

Insurance. One of the greatest risks of the investors in a business is that of destruction by fire. As a protection against this, companies have been organized with the object of indemnifying the owner in case his property should be destroyed. Only a small per cent of the value of the property is charged, the profit to the company being in receiving premiums on a vast amount of property which is never destroyed. It distributes the loss of one among many. The capital invested is used in paying those losses which occur before a sufficient amount is collected, and in procuring business. Wherever there is a risk, there will be a company organized to afford protection against the same.

Banking. Those engaged in this line of business deal in money and securities. They provide a place for the safe keeping of money, for which nothing is charged; their profits arise from loaning this money and that invested, receiving the interest on it. In some countries, the banking is in charge of the government, but in the United States it is conducted by any person or persons who have the money and wish to invest it.

The Farmer is a business man because he must invest money in the business and the amount of his profit is uncertain. The money invested is used to purchase land, stock, implements, seed, labor, etc., in order to produce the material for sale. Each farmer should keep a correct record of all amounts invested, the cost of labor and returns from the sale of the products of his farm, so that he may know the profit for the year just the same as any other business man. Even the farmer who does not own his own land, but cultivates that of others, is a business man because he must purchase stock and invest his time and labor in the enterprise.

A careful analysis of the above shows that the whole business world is linked together so closely that each class is entirely dependent upon the others for existence. The manufacturer buys the raw material from the miner and changes its form to suit the needs of the consumer. The merchant buys from the manufacturer and miner and supplies the demands of the consumer. The transportation company moves the material from one locality to another. The banker supplies the necessary capital for conducting business. The telegraph and telephone companies are necessary in order to secure business. Newspapers, magazines and books are essential to all. Each depends upon the farmer for food and raw material for clothing.

As regards the number of investors and the manner of organization, there are three classes of business—individual, partnership and corporation; a full explanation of each is given later in the work.

The Object of all Investment in business is for gain—that is, an increase in the value of the property invested. It now remains to see what this property is that so many are striving for.

Property is anything of value belonging to a person, a partnership or a corporation. The business man regards it as money or anything that can be exchanged for money. Money is the medium of exchange and measure of value and of course is the most desirable property.

A Resource. Property belonging to an individual, partnership or corporation is a resource, and all the property belonging to a business is its resources. *Cash*, money or any property that the bank will accept as money; *merchandise*, salable goods in stock; *notes*, written promises of others, and *personal accounts*, verbal promises of customers, are examples of the resources of a business.

Liability. When property is purchased and not paid for at that time, the business becomes liable for this amount. All the debts owed by the business are its liabilities. *Notes*, written promises to pay others, and *personal accounts*, verbal promises to pay debts created, are the liabilities of a business.

A Profit is an increase in the value of property invested at the beginning of the business or purchased afterwards. In a mercantile or trading business, the profit is brought about by buying merchandise at one price and selling it at a greater price.

A Loss is a decrease in the value of the property invested at the beginning of the business or purchased afterwards. If the total losses are more than the total profits, the business has been conducted at a loss.

It is necessary to keep a full record of all property received and exchanged by a business. This is done by "Keeping books." There are two methods in use—single entry and double entry.

Single Entry. In this method of keeping books a record is kept only of property received and exchanged. The complete record shows the amount of money received and paid, the amount due each person or firm for property purchased on time, the amount due on written promises to pay for goods purchased, the amount due from each person to whom goods have been sold on time and the amount due on written promises of customers to pay for goods purchased. A better definition is given later in the work, after the student understands the principles of bookkeeping and accounting.

Double Entry. In this method of keeping books, the record shows property received and exchanged, cost of conducting the business and the profits of the business. It is based on the principle that each transaction involves an exchange of equal value and the record must show the value of property or services received and exchanged in each transaction. In every business it is necessary to exchange property for services in conducting the business and very often property is received in exchange for services rendered by the business. The double entry method requires a record of property and services; the single entry method requires a record of property, usually only personal accounts.

The explanation of bookkeeping, accounting and accounts as given in the following sections refers to the double entry method.

To the Student. As the subject of bookkeeping relates almost entirely to the business world, it is necessary for you to understand the nature of each class of business. If you can answer the following questions, you have a sufficient knowledge of the fundamental principles of business to undertake to keep books.

QUESTIONS.

1. Name the three classes of people who earn their own living.
2. Who is an employee? Give an example.
3. Who is a professional man? Give an example.
4. Who is a business man?
5. Distinguish between an employee and a business man.
6. Name the nine principal classes into which the business world is divided.
7. Can you name others not mentioned in this list?
8. Explain the mining business and name their sources of profit.
9. Name two or more classes of mines and state the business of each.
10. Name two or more classes of manufacturers and state the business of each.
11. How many classes of merchants are there?
12. Name and explain the business of each.
13. Name two or more of the most important transportation companies and explain the business of each.
14. Give an example illustrating the advantage of telegraphy to the business world; the telephone.
15. How do newspapers and publishing companies make money?
16. How do insurance companies make money?
17. How does the banker make money?
18. Why is the farmer a business man?
19. Why is each class of business dependent upon some one or more of the other classes? Can you give an example?
20. Name three classes of business as regards their organization.
21. What is property?
22. What is a resource? A liability?
23. What is the object of "Keeping books?" Name the two methods.
24. Define the single entry method.
25. Define the double entry method.

PART I.

BOOKKEEPING, AUDITING, ACCOUNTING, BUSINESS TRANSACTIONS AND ACCOUNTS.

The complete and correct history of the transactions made in any business is discussed in the subjects of Bookkeeping, Auditing and Accounting.

§ 1. **Bookkeeping.** Recording business transactions in properly arranged blank books is called bookkeeping.

The object is to show a complete history of the business; that is, the cash received and paid, merchandise bought and sold, transactions with creditors and customers, and the expense necessary in conducting the business.

§ 2. **Auditing.** Auditing is verifying the results obtained by a bookkeeper, clerk, agent, or any person connected with the business whose duties are to record transactions, receive or pay money, etc. It requires a thorough knowledge of bookkeeping, as it would not be possible to verify the correctness of the results unless the one who is doing the auditing is thoroughly familiar with the manner of obtaining these results.

§ 3. **Accounting.** The proper classification and arrangement of accounts so that the best and correct results may be shown at any time and that the various statements made at the close of a fiscal period will show the true results, is accounting.

§ 4. **A Bookkeeper** is one who understands the principles of double entry bookkeeping, and has a sufficient knowledge of business routine to practically apply this knowledge. His duties may be to record all transactions made in connection with the business or a part of them, depending entirely upon the number of transactions. Thus in a small business, where only one office man is necessary, he can keep the books, make the bills and do all the other work required in connection with recording transactions. Where the business is larger and a number of men are necessary in the office, one may record the sales, another the purchases, another cash received and paid, etc.

§ 5. **An Auditor** is one who verifies the results of the bookkeeper, cashier, clerk, agent, or any other person who records transactions, receives and pays money, etc. The auditor may devote his entire time to auditing for the firm with which he is connected, or he may audit for several firms, depending entirely upon the number of transactions recorded in any one business. Thus the large corporations, such as railroads, express companies, telegraph companies, etc., employ a number of auditors whose business it is to check the work of employees. Where the business is small, the auditing can be done by an auditor or accountant who does special work.

§ 6. **An Accountant** is one who has had sufficient experience in bookkeeping and auditing to enable him to design and install an accounting system to suit the conditions in any particular business, whether it is mercantile, banking or manufacturing. The accountant must have a thorough knowledge of the principles of bookkeeping and accounting and have a wide experience in the practical applications of these.

§ 7. **A Certified Public Accountant** (C. P. A.). The work of the accountant is more or less confidential, and the one who employs him has no means of knowing his ability until he has proved it. If an incompetent accountant is employed to do accounting work, the results are sure to be bad. In order to avoid impositions by those who are not qualified to do accounting work, many states have passed laws requiring those who do public accounting work to pass a rigid examination. This ex-

amination usually requires at least two years' experience in bookkeeping or accounting, and a course in some school of accounting, usually the one under the directions of the State University. The person who has passed this examination is known as "A Certified Public Accountant." The fact that he has passed this examination is evidence to the one who is to employ him that he is qualified to do the required work.

It will be seen from the above that the bookkeeper records the transactions; the auditor verifies the correctness of this record; the accountant devises systems of bookkeeping and accounting especially arranged to suit the conditions in any line of business. The student who knows nothing of the subject must first learn the fundamental principles of bookkeeping and accounting. When he is thoroughly familiar with these, and has acquired sufficient experience in actual business to understand the practical application of these subjects, he may advance to the position of auditor, and later to that of an accountant.

Since the principal work of the bookkeeper is recording business transactions, it is necessary for the beginner to have a thorough knowledge of what constitutes a transaction, and the different kinds of transactions that may occur in business.

§ **8. A Business Transaction.** A transaction is an exchange by which the nature of the business is affected. The usual transactions that occur in any mercantile or trading business are as follows:

First: an exchange of property for property. Second: an exchange of credit for property, that is, property purchased on time. Third: an exchange of property for credit, that is, a sale of property on time. Fourth: property given in payment of an obligation. Fifth: property received in payment of a debt. Sixth: an exchange of property for services. Seventh: an exchange of services for property.

§ **9. An Exchange of Property for Property.** In this class of transactions, property is received and property given in exchange for it. Unless the property received is of a different nature from that exchanged, the business would not be affected, hence no record is necessary. Thus, if a customer buys a pair of shoes for $4.00 and gives in exchange $4.00 in money, this is a transaction, because property is given for property, and must be recorded, as the money is a different kind of property from the goods exchanged. If later the customer returns the shoes and exchanges them for another pair of the same price, no record is made because the property received is of the same kind as that given.

§ **10. An Exchange of Credit for Property.** If the buyer does not have the property to give in exchange for that which he purchases, and the seller will allow him to take possession of it and make payment at some future time, the purchaser gets property, but gives nothing in return. This class of transactions is very popular in business, because much of the property purchased by the average merchant is not paid for until some future date. Credit is extended because the seller has confidence in the purchaser. The amount of credit allowed a business depends upon the promptness with which its debts are paid and the value of its resources. A number of associations have been formed, the object of which is to determine the amount of credit allowed to merchants. This is a special business and will be explained later.

§ **11. An Exchange of Property for Credit.** This class of transactions is the opposite of that described in § 10; that is, the business allows its property to go out without receiving any property in return. It extends credit to its customers just the same as credit is extended to it. The same rule applies relative to the amount of credit allowed.

§ **12. Property Given in Payment of an Obligation.** In this class of transactions those described in § 10 are canceled by fulfilling the contract. The property which would have gone out at the time the purchase was made, if credit had not been extended, is now given in payment of the obligation. The number of transactions of this nature may not be the same as the number described in § 10, as several obligations may be paid by one exchange.

§ **13. Property Received in Payment of a Debt.** This class of transactions completes those described in § 11, and represents the property that should have been received if credit had not been

extended. As described in § 12, there may not be as many transactions of this nature as in § 11, because the customer may pay several debts at one time. On the other hand, there may be more, as he might not pay all of an obligation at one time.

§ 14. **Exchange of Property for Services.** The business man must pay his employees for their services; the telephone company for the use of his 'phone; the insurance company for the protection it affords; the banker for the use of money borrowed from him; the owner of the property in which he does business, for the use of the same; various other services necessary to successfully conduct his business. In each of these transactions some property goes out, but nothing tangible is received in return. It is true that he gets value for his property, but it is of an entirely different nature from that received in §§ 9, 10, 11 and 13.

§ 15. **An Exchange of Services for Property.** This class of transactions is more frequent with those engaged in transportation, communication, publication, insurance and banking, as the larger part of their receipts are for services rendered. In the average mercantile or trading business, there will not be very many transactions of this nature, as the object of the business is to purchase goods and sell them at a profit, rather than render services to customers.

The beginner should study this outline of transactions and be sure that he understands the nature of each. A thorough knowledge of bookkeeping depends largely upon a clear understanding of the transaction and the effect it has upon the business. It is quite evident that all transactions of the same nature should be recorded in the same way, and as there are only seven different classes given, this simplifies the record. In order that the correct results may be shown by recording transactions, it is necessary to use accounts.

§ 16. **An Account is a Record** of all the transactions with any one person, any one particular kind of property, services or revenue. As a record is to be kept of the goods sold on time, it is necessary to have an account with each person, that is, a record of all the transactions with that person. As goods are purchased and sold, it is necessary to have a complete record of all the purchases and sales. As money is to be received and paid, it is necessary to have a record of all the transactions with money. As services must be purchased, a complete record of all services under proper names must be kept. Accounts are named in accordance with the nature of the property, service or revenue which they represent. Money is usually termed *Cash*; goods purchased for sale, *Merchandise*; money paid for conducting the business, *Expense*; money paid for use of money, *Interest*; dealings with persons or firms, *Personal Accounts*, each account bearing the name of the person or firm.

¶ 1. *When an Account is opened* with any particular kind of property, service, or revenue, it is necessary to keep a correct record of all the transactions with it, or the correct results will not be shown. Thus if money received is placed in a certain position in the Cash account at one time, and in the same position in the Merchandise account at another time, neither of these accounts would be correct, because property of the same nature has been made to affect two different accounts. The student must understand this at the beginning, and know that each account must show the complete history of all the transactions with the property, revenue, or service named by the account.

§ 17. **Debits and Credits.** All accounts are affected in two ways, one opposite to the other. The reason for this is because each transaction affects the business in two ways; it represents an exchange of equal values. Thus when money is received, the account representing it (Cash) is affected in one way; when money is paid, this account is also affected, but in an entirely different way. When a person purchases property from the business on time, his account is affected in one way; when he pays for this, his account is also affected, but in an entirely different way. For this reason, accounts are divided into two sides, one showing the value of the property when it is received, and the other the value of the property when it goes out. For convenience, these are named *Debit* and *Credit*. Thus the debit side of a Property account shows that property has been received, and the credit side shows that some of this property has been disposed of. The form of the two sides is of necessity the same, because the transactions are the same, except they affect the account in a different manner. A careful study of illustrations Nos. 1-7 will make this clear to the student.

§ **18. The Difference Between the Two Sides of an Account** will show the value, and is usually termed the balance. Thus, if all the money received is entered on the *debit* side of the Cash account, and all the money paid, on the *credit* side, the difference is the amount of money on hand. If a person is *charged* (debited) with each purchase, and *credited* with the money received from him, the difference is the amount he owes. If the Expense account is debited with all of the money paid for services, and credited for anything that may have been received to offset these services, the difference is the expense of conducting the business. If the Interest account is debited for all the money paid for interest, and credited with all the money received for interest, the difference is the net amount of money paid or received for interest.

§ **19. Negative Accounts.** The balance of each account should show either a resource, a liability, a loss or a gain. Since the resources or assets of the business consist of property belonging to the business, the balance of a resource account must be the value of some property. If the balance does not show the true value of the property, it is necessary to open a negative account that shows the depreciation; this is termed a negative account. Thus property purchased for use in the business will, of necessity, decrease in value. Accounts due from customers will not all be collected; notes accepted by the business in payment for obligations due from customers may not be paid in full. If the true value of the resources is to be shown, it is necessary to take this into consideration at the time the Financial statement is made. In order to make each account show its true value, a reserve for depreciation account is opened, and credited with the amount that shows the decrease in value of the property.

§ **20. Classification of Accounts.** The proper classification of accounts is the most important feature in bookkeeping and accounting. Unless the accounts are properly classified, the correct result will not be shown, even though each account does contain a history of all the transactions, with some particular kind of property, service, or revenue. Each account has a certain relation to the business as a whole, and must represent a certain number of units of value. The account representing the most number of units of value in one business, might not have the same relation in another business. The student of bookkeeping and accounting can not appreciate the value of this statement until he has had some practical experience in keeping books or classifying accounts. However, he must always keep in mind the fact that each account must show a certain number of units of information, and that the nature of the business will determine the information that the different accounts must show.

In the average trading or mercantile business, will be found six classes of accounts as follows: Resources or Assets; Liabilities; Revenue or Trading; Operating; Special Profits and Losses; Investment.

§ **21. Resources or Assets.** A Resource or Asset account shows the value of some property belonging to the business. All of the Resource or Asset accounts show the total value of the property or assets of the business. Since property is purchased for two different purposes, there are really two kinds of Resource or Asset accounts; one to show the value of property brought about by the purchase and sale of merchandise; the other, the value of property bought to be used in the business, and not for sale. The former is termed the "Active or Current Assets," and the latter, the "Fixed Assets" or "Fixed Investments."

¶ 1. *Active or Current Assets.* The object of these accounts is to show the value of property belonging to the business which was brought about by the purchase and sale of merchandise. This property is usually represented by the following accounts: Cash; Merchandise Inventory; Notes Receivable; Accounts Receivable; Shipments; Securities owned; Treasury Stock; Installment Contracts. As some of these resource accounts may not show the true value of the property, it may be necessary to have negative or reserve accounts as follows: Reserve for bad debts; Reserve for bad notes; Reserve for loss or canceled sales.

The above accounts are listed in the order of their availability, and should appear in the Financial statement in the order given.

¶ 2. *Fixed Assets.* The object of these accounts is to show the value of property purchased

for use in the business, but not for sale. In every business it is necessary to purchase this class of property. The merchant must have the proper equipment in his office and store room; the railroad company must have cars and engines for hauling freight and passengers, mail and express; the telegraph company must have telegraph instruments, wires, office equipment and other property necessary for the successful conducting of the business. In the average trading or mercantile business, the following accounts usually represent the fixed investments: Land; Buildings; Real Estate; Store Fixtures; Office Equipment; Furniture and Fixtures; Delivery Equipment; Interior Alterations; Good Will; Sinking Fund. Since most of the property purchased for use in the business will, of necessity, decrease in value on account of its use, it is necessary to have a Negative or Reserve account to show the amount of the decrease.

In the above classifications there would be the following: Reserve for Depreciation on Office Equipment, Store Fixtures, Furniture and Fixtures, Delivery Equipment, Buildings. The land would not decrease in value.

¶ 3. *At the Close of the Fiscal Period* there may be some property on hand that is not shown on the books. This might be interest accrued on notes or accounts due the business; prepaid rent; telephone services, paid in advance; unexpired insurance, etc. These are usually represented on the Financial statement by a Sundry Resource Inventories account; and after the ledger is closed, they are entered on the debit side of the service account, which they represent.

§ 22. **Liabilities.** The object of these accounts is to show the obligations owed by the business. As a general rule, there are only two classes of indebtedness: one is verbal promises (trade creditors), the other, written promises (notes payable).

¶ 1. *At the Close of the Fiscal Period* there may be a number of outstanding obligations that are not shown on the books, such as accrued interest on notes or accounts owed by the business; pay roll earned by employees, but not paid; rent due, but not paid; and various other small obligations. These are usually represented on the Financial statement by a Sundry Liability Inventories account; and after the ledger is closed, they are entered on the credit side of the service account, which they represent.

§ 23. **Income or Revenue Accounts.** The object of these accounts is to show the profit derived from the sale of property or services. These are usually represented by the following: Merchandise Sales or Sales of each Department; Income from Securities owned; Commission; Income from Rents; Miscellaneous Income.

§ 24. **Operating Accounts.** It is necessary to keep a record of all the property transferred in payment for services rendered the business, which are usually termed the "Expenses." The expenses of the business may be divided into two general classes: General Administrative Expense and Selling Expense. The *general administrative expense* refers to amounts paid for conducting the business, such as rent, bookkeepers' and stenographers' salaries, officers' salaries, heat, light, etc. The *selling expense* refers to amounts paid for securing sales. The following accounts are usually represented in each class:

¶ 1. *General Administrative Expense* may be represented by *one* account, or such accounts as, Officers' Salaries; Office Expense; Office Supplies; Directors' Fees; Insurance on Office Equipment; Rent; General Postage; Legal Advice; Heat; Light; Depreciation on Office Equipment; Office Supplies used; Repairs on Office Equipment; Incidentals.

¶ 2. *Selling Expense* may be represented by *one* account, or such accounts as, Advertising; Salesmen's Salaries; Agents' Commissions; Traveling Expense; Credit Man's Salary; Clerk Hire in the Sales Department; Freight Out; Drayage or Delivery Expense; Shipping Department Expense; Postage in the Selling and Advertising Department; Depreciation on Delivery Equipment.

§ 25. **Special Profit or Loss Accounts.** These include those losses and gains not brought about by the purchase and sale of goods, such as Interest, Discount, Loss on Bad Debts, Commission. They appear on the Profit and Loss statement, after the other losses and gains, §§ 23 and 24, have been considered.

§ 26. **Investment Accounts.** The object of these accounts is to show the investment at the beginning of the business, subsequent investments and accumulated profits. The investment may be made by one person, two or more persons acting under a partnership agreement, or three or more persons associated together as a corporation. Separate accounts may be kept with amounts invested and withdrawn from the investment, and with the profits accumulated, or the profit may be credited to the investment account. The investment account in an individual or partnership business is given the name of the individual or owner, or each partner, the word "Capital" being written after the name to indicate that it is the investment account. As stated, the accumulated profit may be credited to this account at the close of the fiscal period; if not, a surplus account is opened, and this shows the amount of the profit, unless a part or all of it is withdrawn. When the business is conducted as a corporation, the profit is always closed into a Surplus account, and not into the Capital Stock account, which shows the investment.

The beginning student is not expected to understand the above classification and use of the various accounts mentioned. These will be referred to as the account is introduced, and a further explanation given of each. However, he should understand that the difference of each account must show a resource, a liability, a loss, or a gain, and in the case of property accounts, where the difference does not show the true value, a negative or reserve account must be opened to show the depreciation.

QUESTIONS.

1. Define bookkeeping and state its object. (§ 1.)
2. Define auditing. (§ 2.)
3. Define accounting. (§ 3.)
4. State the duties of the bookkeeper; the auditor; the accountant. (§§ 4–6).
5. Who is a Certified Public Accountant? (§ 7.)
6. Define a business transaction. (§ 8.)
7. What is meant by an exchange of property for property? (§ 9.)
8. What is meant by an exchange of credit for property? (§ 10.)
9. What is meant by an exchange of property for credit? (§ 11.)
10. What is meant by property given in payment of obligations? (§ 12.)
11. What is meant by property received in payment of a debt? (§ 13.)
12. Why is it necessary for a business man to exchange property for services? (§ 14.)
13. Name some of the classes of business in which the majority of the transactions involve an exchange of services for property. (§ 15.)
14. Define an account. (§ 16.)
15. What is meant by debit and credit and why is it necessary to debit and credit an account? (§ 17.)
16. What is meant by "the difference" of an account? (§ 18.)
17. Why are negative accounts necessary? (§ 19.)
18. What is meant by classification of accounts? (§ 20.)
19. What are resource or asset accounts? (§ 21.)
20. Distinguish between active or current assets and fixed assets. (§ 21 ¶¶ 1—2.)
21. What kind of property may be on hand at the time the books are closed and not shown on the books? (§ 21, ¶ 3.)
22. What are the liabilities of a business and into how many classes are they divided? (§ 22.)
23. What is a Sundry Liability Inventories account?. (§ 22 ¶ 1.)
24. What are Income or Revenue accounts? (§ 23.)
25. What are Operating accounts? (§ 24.)
26. Name some of the accounts that represent the general administrative expense. (§ 24, ¶ 1.)
27. Name some of the accounts that represent the selling expense. (§ 24, ¶ 2.)
28. Name three of the special profit and loss accounts. (§ 25.)
29. What is the object of the Investment account? (§ 26.)
30. What should the difference of each account show? (§ 26.)

EXERCISES IN ACCOUNTS.

The following accounts are those introduced in the January work, and it is necessary for the student to understand the object of each, the various debits and credits that may arise, the value of the difference, and the method of closing and ruling. These exercises should be worked out before any transactions are recorded.

CASH ACCOUNT.

§ 27. **The Object of this Account** is to show a record of all cash received and paid. Cash is money or any commercial paper that the banks will accept at the face value as money. The latter includes personal checks, bank drafts, cashier's checks, postoffice and express money orders, etc. (§ 100, ¶¶ 1—6.)

As a general rule, the cash account is not kept in the ledger, but in a separate book termed "Cash Book." The reason for this is because of the large number of transactions affecting cash.

The Cash Account is Debited:

¶ 1. For the balance of cash on hand at the beginning of the business.

¶ 2. For all cash received.

The Cash Account is Credited:

¶ 3. For all money paid.

¶ 4. For all checks written.

¶ 5. *The Balance of this Account* will show the amount of cash on hand; this may be in the safe, in the bank, or a part in each place. Cash is a resource, and must appear first on the Financial statement because it is the most available of all the resources.

¶ 6. *To Close the Cash Account.* Add the two sides and enter the totals in small pencil figures as shown in illustration; write on the credit side, in red ink, the date of closing, the word "Balance," the page in the ledger where this balance is to appear, and the amount of the cash balance, which is the difference between the two sides. Rule the account with single and double lines, using red ink. Write the totals of each side in black ink, between the single and double lines. On the debit side, either on the same page or a new page, write, with black ink, the date, which will be that of the day following the closing, the word "Balance," the page of the cash account, and the amount of the balance. If the balance is brought down on the same page, it is written on the first blue line below the double lines, and a check mark is placed in the page column. See illustration No. 1.

The same instructions apply to ruling the cash book. This will be explained later.

Cash

191					191				
Jan	1		1	2000	Jan	4		1	20
	6		1	30		5		1	192
	9		2	10		6		1	77 30
	12		2	30		13		2	100
	13		2	40		20		3	34 95
	18		3	35		24		4	125
	20		4	50		30		5	150
	24		4	15		31		5	60
									759 25
	26		4	4 25		31	Balance	✓	1547 50
	27		5	42 50					
	29		5	50					
				2306 75					
				2306 75					2306 75
Feb	1	Balance	✓	1547 50					

Illustration No. 1. Cash Account for January.

EXERCISES IN THE CASH ACCOUNT.

Prepare, on ledger paper, a Cash account for each of exercises Nos. 1, 2 and 3. Illustration No. 1 is the same as exercise No. 1. The figures in the page column (the one on the left of the amounts) are not to be used by the student. The various transactions will illustrate the special debits and credits described in § 27, ¶¶ 1, 2, 3 and 4. References are not given in every case, but only in those cases where the student may be in doubt as to the reason for the debit or credit. Full instructions regarding ruling and the use of the rule are given in § 73, ¶¶ 1–3.

The student should be provided with ledger paper ruled similar to illustration No. 1, as it will require too much time to rule blank paper.

EXERCISE No. 1. January 1st, invested $2,000.00 in cash (¶ 1); 4th, paid $20.00 for city license (¶ 3); 5th, paid City Milling Co. $192.00 for flour (¶ 3); 6th, cash sales, $30.00 (¶ 2); 6th, paid Borches & Co. $77.30, in full of account (¶ 3); 9th, received $10.00 from A. R. Jennings (¶ 2); 12th, received $30.00 from Central Hotel (¶ 2); 13th, cash sales, $40.00 (¶ 2); 13th, paid Kaiser Bros. $100.00 (¶ 3); 18th, received $35.00 from M. A. Johnson (¶ 2); 20th, paid Kaiser Bros. $34.95 (¶ 3); 20th, cash sales, $50.00 (¶ 2); 24th, received $15.00 from Central Hotel (¶ 2); 24th, paid Hazen Lotspeich $125.00 (¶ 3); 26th, received $4.25 from A. R. Jennings (¶ 2); 27th, cash sales, $42.50 (¶ 2); 29th, received $50.00 from C. L. Loyd (¶ 2); 30th, paid Borches & Co. $150.00 (¶ 3); 31st, paid sundry expenses, $60.00 (¶ 3); cash balance, January 31st, $1,547.50.

EXERCISE No. 2. February 1st, invested $2,500.00 in cash (¶ 1); 1st, paid $1,186.45 for merchandise (¶ 3); 3d, paid rent, $40.00; 3d, paid salaries, $30.00; 4th, received from Oxford Hotel, $100.00 (¶ 2); 4th, paid $50.00 for scales (¶ 3); 4th, paid $350.00 for team of horses and wagon; 5th, cash sales, $327.56 (¶ 2); 6th, gave the Hall Safe Company check for $150.00, for safe (¶ 4); 7th, cash sales, $175.46; 7th, paid driver, $18.00 (¶ 3); 8th, paid telephone rent, $10.00; 8th, received from Oxford Hotel, $150.00; 10th, cash sales, $95.00; 10th, paid $25.00 for office desk; 10th, paid $237.50 for merchandise; 11th, cash sales, $156.75; 12th, received from Chas. C. Lundy, $40.00; 12th, gave Jones Bros. a check in payment for merchandise, $62.85; 12th, received from Robert A. Dow, $25.00; 13th, cash sales, $297.36; 13th, paid sundry expenses, $38.50. Balance on hand February 13th, $1,668.83.

EXERCISE No. 3. March 1st, invested $3,500.00 in cash (¶ 1); 1st, paid by check for team and wagon, $300.00 (¶ 4); 1st, paid by check for office and store fixtures, $650.00; 2d, cash sales, $304.87; 2d, paid cash for merchandise, $1,500.00; 2d, received from Caleb Barber, $50.00; 3d, paid sundry expenses, $127.00; 4th, paid $150.00 for safe; 7th, received from O. H. Arnold, $64.00; 7th, cash purchase, $330.75 (¶ 3); 8th, cash sales of merchandise, $204.18; 9th, received from H. F. Ritter, $15.00; 9th, cash purchase, $28.65; 11th, cash sales, $264.85; 13th, received from O. B. Donaldson, $50.00; 14th, cash sales, $15.79; 14th, gave Belknap Hardware Co. a check for $629.87; 14th, paid sundry expenses, $72.50; 14th, paid C. R. Crawford, $75.00; 14th, received from H. F. Ritter, $20.00; 14th, borrowed $1,000.00 from the bank (¶ 2); 18th, paid by check Simmons Hardware Co., $526.48 (¶ 4); 18th, gave McClung Hardware Co. a check for $200.00; 18th, paid by check Green Construction Co., $31.65; 18th, cash purchase of merchandise, $304.05; 18th, cash sales, $421.65; 18th, paid sundry expenses, $54.25. Balance on hand March 18, $930.14.

PERSONAL ACCOUNTS.

§ 28. **Personal Accounts** represent dealings with individuals, partners, or corporations. They are made necessary by the purchase and sale of property on time. As the business man seldom buys and sells to the same person, they are divided into two classes; one represents the dealings with the persons *from* whom he *buys*, and the other those *to* whom he *sells*.

ACCOUNTS WITH CUSTOMERS.

§ 29. **The Object of these Accounts** is to show the amount charged and credited to each customer, to whom the business sells property on time. Separate accounts are kept with each person, partnership or corporation.

Debit Customers:

¶ 1. For amounts due from customers at the beginning of the business.

¶ 2. For the value of all property sold on time.

¶ 3. For all freight prepaid unless we were to deliver the property.

Credit Customers:

¶ 4. *For all cash they pay us on account.

¶ 5. For all notes they give us signed by them or signed by others and transferred to us.

¶ 6. For all time drafts they accept, or sight drafts paid by them, which are drawn by us to apply on account.

¶ 7. For all rebates allowed by us for *shortages, overcharges, damaged goods or goods returned.* (This is usually represented by a credit bill sent by us.)

¶ 8. For freight charges paid by them, when we agreed to deliver the goods f. o. b. their freight station.

¶ 9. For all allowances for discount deducted as per terms of the bill.

¶ 10. For special deductions made in settlement when the full amount can not be collected.

¶ 11. *The Balance of a Customer's Account* will show the amount he owes. It is a resource, and must be listed among the active resources in the Financial statement. It usually occupies the fourth place, as Cash, Merchandise and Notes Receivable are considered more available.

¶ 12. *To Close a Customer's Account.* The customer's account is not closed until it is paid in full, unless it is desired to rule the account and bring the balance down, or transfer it to a new page. When the account balances by payment, it is ruled by drawing a single red line under the dollars and cents column only, and beneath the amounts on each side that balance. When possible, this line should be drawn on the same blue line on each side of the account, that is, the one just beneath the lowest item on either side. If there are two or more amounts on either side of the account, they should be added, and the total placed in small pencil figures just beneath the blue line. This is done to avoid any possible error in ruling an account that does not balance.

If the account is made to balance, the difference, together with the date and the word "Balance," is entered on the credit side in red ink, and the account footed, and ruled with single and double red lines. (See illustration No. 1.) The balance is entered on the debit side, below the ruling, in black ink; if the space allotted the account is full, it may be entered on a new page. When transferred, the new page must be shown in the red ink entry, and the old page in the black ink entry. This is for reference only.

*NOTE—A debtor has the right, by law, to indicate on what item his payment shall be applied. Thus if he owes several amounts and wishes the payment to apply on any one particular amount, and indicates this, the credit must be applied on that amount. In cases of this kind the bookkeeper should indicate the amount on which the credit is allowed by placing a letter at the left of the amount of the item on the debit side, and place the same letter to the left of each payment on the credit side. It is best to begin with "a" and continue with as many letters as may be required for payments on different charges. Each payment on the first charge is indicated by the letter "a." Each payment on the second charge is indicated by the letter "b" on each side, etc. The letters are not necessary when an item is paid in full by one payment, and the account is ruled. The student will understand this better by referring to exercise No. 4 and illustration No. 2.

The same method is used to indicate payments made to a creditor, or for partial payments on notes.

J. H. Henderson

191-						191-					
Jan.	3		7	a	88 40	Jan.	10		8	a	75 00
	5		7		32 75		20		8	a	13 40
	9		8		18 30		27		9		32 75
	12		8		26 10		31		10		10 00
	19		9		32 50						
	26		9		35 18						
	28	124.45	10		22 37						
					134 45						

Illustration No. 2. An Account with a Customer.

EXERCISES IN CUSTOMERS' ACCOUNTS.

The student will prepare ledger accounts for exercises Nos. 4, 5 and 6, on ruled ledger paper. It is best to use the stock paper, as it requires too much time to do all the ruling. The accounts are not ruled except where they balance. When the work is presented to the teacher, all debits remaining unpaid, and all credits on these charges, are footed with a pencil, and the balance is written in small pencil figures in the explanation column, opposite the last amount on the debit side. Illustration No. 2 is exercise No. 4 worked out. The various charges and credits illustrate the different paragraphs under section 29. References are given only in cases where the student may be in doubt. (Read § 73, ¶¶ 1—3, and § 62.)

EXERCISE No. 4. January 3d, sold J. H. Henderson, on account, a bill of merchandise amounting to $88.40 (¶ 2); 5th, sold on account, $32.75 (¶ 2); 9th, sold on account, $18.30 (¶ 2); 10th, received cash on bill charged on the 3d, $75.00 (¶ 4); 12th, sold on account, $26.10 (¶ 2); 19th, sold on account, $32.50 (¶ 2); 20th, received in full for balance of bill charged on the 3d, $13.40. (Rule as shown in illustration No. 2.) 26th, sold on account, $35.18; 27th, received cash in full of bill charged on the 5th, $32.75; 28th, sold on account, $22.37; 31st, received on account, $10.00 (¶ 4).

EXERCISE No. 5. February 1st, balance due from Walter Rogers, $62.75 (¶ 1); 9th, sold on account, $116.95 (¶ 2); 12th, received cash on account of balance due, $25.25 (¶ 4); 15th, sold on account, $22.65; 16th, allowed a credit of $2.00 for goods damaged, in bill charged on the 9th (¶ 7); 18th, received cash, $37.50, in full for balance due February 1st. (While this pays all of the old balance, yet the account can not be ruled because there is a credit on another bill.) 19th, sold on account, $94.36; 20th, sold on account, $16.95; 24th, received note for $114.95, in payment of balance due on bill charged on the 9th (¶ 5). (Foot the two items on the debit side, and the four items on the credit side and enter the totals in small pencil figures. You will observe that the total of each side is the same. Rule the account by drawing a single red line beneath the first two items on the debit side, and the first four items on the credit side.) 25th, sold on account, $39.62. 27th, received cash in full for bill charged on the 15th, $22.65. (Rule the account.) 27th, received cash on bill charged the 19th, $35.00, and allowed freight charges on the same bill amounting to $4.65 (¶ 4 and ¶ 8); 27th, sold on account, $69.27; 28th, received check to pay bill charged on the 20th, $16.95; 28th, received $30.00 to apply on bill charged on the 19th.

EXERCISE No. 6. March 1st, sold Hammond Bros., on ten days, $261.45; 5th, sold on ten days, $86.45; 9th, sold on thirty days, with a discount of 3 per cent if paid in ten days, $117.26. (Indicate terms by writing in the explanation column, "3-10, n-30.") 10th, allowed a credit of $14.60 for goods returned from those purchased on the 5th (¶ 7); 15th, received cash, $261.45, in payment of bill charged on the 1st. (The account can not be ruled, even though one bill is paid in full, on ac-

count of the credit for returned goods. Indicate the payment and charge by the letter "a.") 17th, received their three-day acceptance for balance due on bill charged on the 5th, $71.85. (Foot the two amounts on the debit side, and the three amounts on the credit side, and place the total in small pencil figures just beneath the blue line. You will note that these amounts are the same. Draw a single red line on each side to indicate that the account balances at this point.) 18th, sold on thirty days, $116.95; 19th, received check for $113.74 in payment for bill charged the 9th, this being the amount of the bill, less the 3 per cent. (¶ 4 and ¶ 9. Enter the two amounts.) 22d, sold on ten days, $58.42; 24th, allowed a credit for freight on bill charged on the 22d, $5.16 (¶ 8); 25th, they transferred W. H. Smith's note for $25.00 to apply on account (¶ 5); 26th, paid $9.65 freight bill for goods sold on the 18th. This was prepaid because we could get a better rate, and is to be charged to his account (¶ 3); 29th, he accepts our draft at twenty days, in full for bill charged the 18th, $126.60 (¶ 6); 29th, sold on account, $123.00; 30th, sold on thirty days, $130.18.

ACCOUNTS WITH CREDITORS.

§ 30. **The Object of these Accounts** is to show the amount credited for property purchased on time and the amount charged to each creditor for payments made on each obligation. A separate account is kept with each person, partnership, or corporation, that extends credit.

Debit Creditors:

¶ 1. For all cash paid them on account.

¶ 2. For all notes given them to apply on account.

¶ 3. For all time drafts drawn by them and accepted by us, or sight drafts paid by us.

¶ 4. For notes of others transferred to them by our endorsement, on account.

¶ 5. For all rebates allowed by them on account of *damaged goods, shortages, overcharges and returned goods.* (This is usually represented by a credit memorandum sent by them.)

¶ 6. For discounts deducted from invoices as indicated by the terms.

¶ 7. For all freight paid for them by us on goods delivered f. o. b. our freight station.

¶ 8. For special deductions in settlements when we are insolvent.

Credit Creditors:

¶ 9. For amounts due them at the beginning of the business.

¶ 10. For the value of all property purchased from them on time.

¶ 11. *The Balance of a Creditor's Account* will show the amount we owe him. The credit side is always the larger, and is a liability, and appears as a liability on the Financial statement.

¶ 12. *To Close a Creditor's Account.* A creditor's account is not closed unless it balances or it is desired to bring down the balance on the same page, or transfer it to a new page. As a general rule, payments are made as the purchases become due. In this case, the account is ruled by drawing a single red line on the blue line on each side. When the account is ruled, and the balance brought down, the single and double red lines are used, and the footings entered in black ink. The balance is entered on the debit side, in red ink, before closing, and brought down or transferred to another page, on the credit side, in black ink, after closing. (See illustration No. 1 for this form of ruling.)

Partial payments are indicated as explained in the *note* under § 29, page 19.

Roberts Bros.

Date			Fol.		Amount	Date		Explanation	Fol.		Amount
191						191					
Jan	10		5		416 40	Jan	1		4		416 40
	12		5	a	400		5	15 days	5	a	825 59
	17		6	a	425 59		11	10 "	5	b	786 99
	20		7	b	300		12	15 "	6		350 65
			7	c	16 50		16	15 "	7	c	372 65
	27		8	b	486 99		18	30 "	8		209 48
	28		8		350 65		25	30 "	9		316 95
			9	c	200		29	60 "	10		521 64
	31		10	c	156 15						

Illustration No. 3. An Account with a Creditor.

EXERCISES IN CREDITOR'S ACCOUNTS.

The student will prepare ledger accounts for exercises Nos. 7, 8 and 9 on ruled ledger paper. The accounts are not ruled except where they balance; when the work is presented to the teacher, all credits remaining unpaid, and debits or charges on these, are footed with pencil, and the balance written in small pencil figures in the explanation column on the same line as the last amount on the credit side. Where payments or allowances are made on certain invoices, indicate this by letter. Illustration No. 3 is the same as exercise No. 7. References are given only in those cases where the student may be in doubt. These references are to the paragraphs under § 30.

EXERCISE No. 7. January 1st, bought from Roberts Bros., $416.40 (¶ 10); 5th, bought on fifteen days' time, $825.59; 10th, paid invoice of the 1st by check, $416.40. (Rule the account by drawing a single red line just beneath the amount on each side of the account. See illustration No. 3.) 11th, bought on ten days' time, $786.99; 12th, paid $400.00 on invoice purchased the 5th (¶ 1); 12th, bought on fifteen days' time, $350.65; 16th, bought on fifteen days' time, $372.65; 17th, accepted their ten-day draft for $425.59, balance due on invoice received the 5th (¶ 3.) (Rule the account as shown in the illustration.) 18th, bought on thirty days' time, $209.48; 20th, paid $300.00 on invoice purchased the 11th; 20th, received credit memorandum for $16.50, for damaged goods on invoice of the 16th (¶ 5); 25th, bought on thirty days' time, $316.95; 27th, accepted their ten-day draft for balance due on invoice of the 11th, $486.99 (¶ 3); 28th, gave thirty-day note to pay invoice of the 12th, $350.65 (¶ 2); 28th, paid $200.00 on invoice purchased on the 16th; 29th, bought on sixty days' time, $521.64; 31st, accepted ten-day draft in full for balance due on invoice of the 16th (¶ 3).

EXERCISE No. 8. February 1st, bought of Mays & Hickman, on account, merchandise per invoice of the same date, $316.92; 3d, bought on thirty days' time, $217.36; 6th, paid cash on invoice of the 1st, $200.00 (¶ 1); 7th, received credit memorandum for goods returned from invoice of the 3d, $32.65 (¶ 5); 9th, paid balance of invoice of the 1st, $116.92; 12th, bought on thirty days' time, with the privilege of 3 per cent discount for payment within ten days, $399.67. (Indicate the terms in the explanation column by writing 3-10, n-30.) 12th, accepted draft at twenty days, for balance of invoice on the 3d, $184.71 (¶ 3). (Foot the four items on the debit side, and the two on the credit side. The totals should be equal. Rule as instructed.) 15th, purchased on account, $409.16; 16th, paid freight on invoice of the 15th and charged to their account as per agreement, $26.37; 19th, paid $150.00 on the invoice purchased the 15th; 20th, purchased on thirty days' time, with the privilege of 3 per cent discount for cash in ten days, $527.62; 22d, paid invoice of the 12th, less discount. The amount

of the check is $387.68; discount, $11.99 (¶ 1 and ¶ 6). (Enter the two amounts, and in the explanation column, on the same line as the amount of the check, write, "Check;" and on the line with the discount, "Discount.") 26th, purchased on account, $234.81; 28th, gave thirty-day note to pay balance due on invoice purchased the 15th, $232.79 (¶ 2). (The five items on the debit side should balance the two items on the credit side. You will note that invoice purchased on the 15th was paid by freight, $26.37, cash, $150.00, and note, $232.79. Invoice of the 12th was paid by check and discount.) 28th, paid invoice of the 20th, less discount; check, $511.79; discount, $15.83; 28th, bought on account, $176.29.

EXERCISE No. 9. March 1st, purchased of J. B. Jones & Co., on ten days' time, merchandise per invoice of this date, $116.92; 2d, purchased on sixty days' time, with the privilege of 3 per cent for cash in ten days, $186.25; 3d, paid freight on invoice received the 1st and charged to their account, per agreement, $9.10; 5th, bought on thirty days' time, $209.11; 6th, received credit memorandum for goods returned from invoice of the 2d, $28.65 (¶ 5); 9th, gave them a check for balance due on invoice purchased the 1st, $107.82; 11th, bought on ten days' time, $436.50. 12th, paid invoice of the 2d, less 3 per cent; amount of check, $152.87; discount, $4.73. (¶ 1 and ¶ 6.) (The student will note that the discount is calculated on the amount of the invoice less the goods returned, as it would not be right to take discount on the value of the latter.) 15th, transferred to them J. B. Jones' note for $100.00, to apply on invoice of the 5th; 16th, bought on thirty days' time, $227.65; 18th, accepted their three-day draft in payment of invoice purchased on the 11th; 19th, bought on account, $427.62; 20th, gave them our note due in thirty days for $109.11, balance due on invoice of the 5th (¶ 2.) (When the two amounts of each side are equal, foot and rule as instructed. This is the second time the account should have been ruled.) 21st, bought on sixty days' time, with the privilege of 3 per cent for cash in ten days, $627.42; 22d, paid freight $52.65, on invoice of the 21st, and charged to their account, per agreement; 22d, bought on thirty days' time, $418.26; 23d, received credit memorandum for $106.42, goods returned from invoice of the 22d; 23d, gave them check for $127.62, and thirty-day note for $300.00, to pay invoice purchased on the 19th; 26th, bought on thirty days' time, $207.30; 27th, accepted twenty-day draft for $311.84, for balance due on invoice received the 22d (¶ 3); 27th, paid invoice of the 21st, less 3 per cent discount; amount of check, $555.95; discount, $18.82 (¶ 1 and ¶ 6.) (The student will note that the discount is calculated on the full amount of the bill, because the charge is for freight paid by us which should have been paid by them.) 30th, bought on sixty days' time, with the privilege of 3 per cent if paid in thirty days, $416.25.

MERCHANDISE ACCOUNT.

§ 31. **Merchandise is a General Term** applied to goods bought for sale in a mercantile or trading business. The account kept with the purchases and sales of these goods is termed "Merchandise." This is the principal trading account and must be accurately kept, that the true gain and gain per cent may be shown. The object of the Merchandise account is to show the cost of the goods bought, and the amount received from the sale of these goods. There are two methods of keeping this record. Only one is illustrated here. The other will be explained in succeeding sets. The following debits and credits are applicable only when a general account is kept with Merchandise.

Debit Merchandise:

¶ 1. For the cost of any salable goods on hand at the beginning of the business or fiscal period.

¶ 2. For the cost (invoice price) of goods purchased either for cash or on time.

¶ 3. For all amounts paid for freight and drayage on merchandise purchased.

¶ 4. *For all rebates allowed customers for goods returned, damaged goods or shortages.

Credit Merchandise:

¶ 5. For all sales of goods, either for cash or on time.

¶ 6. For all amounts received from insurance companies as payment for damage to merchandise.

¶ 7. *For all rebates allowed us by creditors for goods returned, damaged goods or shortages.

¶ 8. *The Difference between the two Sides of the Merchandise Account* will show the profit or loss on merchandise, if all the goods have been sold. If any of the goods purchased are unsold, the cost value must be considered in estimating the profit. This account is used in making the Trading statement.

¶ 9. *To Close the Merchandise Account.* This account is not closed until the end of the fiscal period, and after the profit has been ascertained by the Trading statement, and proved to be correct by the Profit and Loss, and Financial statements. It is necessary to close this account because a part of the profit which is to be credited to the investor is represented by it. The method of closing depends upon whether all the goods are sold, or any remain unsold, the value of which is represented by the inventory.

¶ 10. *To Close the Account when there is an Inventory.* Enter the inventory on the credit side in red ink; enter the amount of the gain, which is the difference of the account after the inventory is entered, on the debit side in red ink; add the red ink entry on each side to the pencil figures which represent the total of each side, and enter this new total in small pencil figures just beneath the red ink entry; rule the account with single and double red lines; enter the total of each side, which is the same as the last pencil figures, between the single and double lines, in black ink; on the debit side, below the double red lines, write, in black ink, the amount of the inventory, the word "Inventory," and the date of the next day following the closing. (See illustration No. 4.) The profit is transferred to the credit side of the Profit and Loss account, in black ink. (See illustration No. 6.)

¶ 11. *To Close the Account when there is no Inventory.* Enter in red ink on the debit side, the amount of the profit which is the difference of the account; rule the account with single and double red lines; enter the total of each side in black ink between the single and double lines; the profit is transferred in black ink to the credit side of the Profit and Loss account. If the merchandise has been sold at a loss, the loss is entered on the credit side in red ink.

*NOTE—If the Merchandise account is charged or credited with amounts allowed or received for returned goods, damaged goods, shortages, or rebates, these entries should be explained in the explanation column; and the total of such amounts should be used in decreasing or increasing the losses when the Trading statement is made. The reason for this is because a customer is credited for goods returned at the selling price, and our creditors credit us for the cost value of goods we return, hence the purchases and sales are increased when really the sales and purchases have been decreased. It is not the best practice to keep only one account with merchandise, but many bookkeepers prefer this method, and we deem it best to illustrate it to the student so that he will understand it. When a general Merchandise account is kept an account should be kept with Returned Goods, and another with Rebates and Allowances; the debits described in ¶ 4, and the credits in ¶ 7, should be debited and credited to these accounts.

Merchandise

Date	Day	Item	Fol.	Amount	Date	Day	Item	Fol.	Amount
191					191				
Jan.	2		1	77 30	Jan.	4		1	14 25
	3		1	134 95		6		1	30
	5		1	192		8		1	57 35
	10		2	228 60		11		2	54 25
	15		3	246		13		2	40
	17		3	28				3	52 40
	23		4	197 10		16		3	49 40
	27		5	172 75		19		3	42 30
				1276 70		22		4	50
	31	Profit & Loss	4	262 81				4	24 05
						25		4	80 05
						26		5	78 25
						27		5	42 25
								5	42 50
									657 05
						31	Inventory	✓	882 46
				1539 51					1539 51
Feb.	1	Inventory	✓	882 46					

Illustration No. 4. Merchandise Account for January.

EXERCISES IN THE MERCHANDISE ACCOUNT.

The following exercises are given to familiarize the student with the debits and credits explained in ¶¶ 1—7, under § 31. References are given only when the student may be in doubt as to the reason for the debit or credit. These exercises are to be worked out on ledger paper, as shown in illustration No. 4, which is exercise No. 10, and approved by the teacher. It is best to use ruled ledger paper, as it requires too much time for the student to do the ruling. (§ 73, ¶¶ 1—3.)

EXERCISE No. 10. January 2d, bought merchandise from Borches & Co., on account, $77.30 (¶ 2); 3d, bought merchandise of Kaiser Bros., on account, $134.95 (¶ 2); 4th, sold A. R. Jennings merchandise on account, $14.25 (¶ 5); 5th, bought merchandise from City Milling Co. for cash, $192.00 (¶2); 6th, cash sales of merchandise, $30.00 (¶ 5); 8th, sold Central Hotel on account $57.35; 10th, bought merchandise from Hazen & Lotspeich, $228.60 (¶ 2); 11th, sold merchandise to A. R. Jennings, $54.25; 13th, cash sales of merchandise, $40.00; 13th, sold merchandise to M. A. Johnson, $52.40; 15th, bought merchandise from Borches & Co., $246.00; 16th, sold merchandise to Imperial Hotel, $49.40; 17th, bought merchandise from the Lake View Creamery, $28.00; 19th, sold merchandise to A. C. Williams, $42.30; 22d, cash sales of merchandise, $50.00; 22d, sold merchandise to R. G. Mathews, $24.05; 23d, bought merchandise from J. Allen Smith, $197.10; 25th, sold Imperial Hotel on account, $80.05; 26th, sold C. L. Loyd, on account, $78.25; 27th, bought from Borches & Co., on account, $172.75; 27th, sold A. R. Jennings, on account, $42.25; 27th, cash sales, $42.50; 31st, inventory, balance of goods on hand, $882.46.

EXERCISE No. 11. Salable goods on hand February 1st, $316.75 (¶ 1); 1st, bought on account, $1,186.45 (¶ 2); 2d, sold on account, $73.50 (¶ 5); 5th, sold on account, $327.56; 5th, sold on account, $416.25; 5th, sold on account, $470.25; 8th, bought on account, $857.48; 8th,

received credit for $65.00, goods returned, which were purchased on the 1st. (¶ 7) (Be sure to read the foot note.) 9th, sold for cash, $166.50; 10th, sold on account, $119.85; 11th, sold on account, $156.75; 12th, bought on account, $387.65; 12th, paid freight, $62.85 (¶ 3); 12th, received credit for $40.00 for goods returned, purchased on the 8th; 14th, received $360.50 from insurance company, in settlement for damage to merchandise caused by fire (¶ 6); 14th, sold on account, $297.36; 15th, sold on account, $225.00; 15th, sold on account, $291.75; 17th, sold for cash, $68.00; 18th, sold on account, $212.75; 19th, bought on account, $462.92; 19th, sold for cash, $151.00; 21st, sold on account, $211.64; 22d, received $100.00 from insurance company in payment for merchandise damaged by fire (¶ 6); 23d, sold for cash, $283.00; 24th, purchased on account, $629.40; 25th, received credit for $97.00 in payment for damaged goods purchased on the 24th; 25th, sold for cash, $220.00; 26th, purchased on account, $418.25; 28th, paid freight and drayage bills, $116.80; 28th, received credit for $50.00 on account of shortage in goods purchased on the 26th; 28th, salable goods on hand as per inventory, $1639.47.

EXERCISE No. 12. Salable goods on hand as per inventory of March 1st, $2,465.89 (¶ 1); 2d, sold on account, $389.64; 2d, bought on account, $396.42; 3d, sold for cash, $275.49 5th, sold on account, $159.48; 6th, purchased on account, $132.75; 8th, sold for cash, $437.69; 10th, allowed a customer credit for $99.87, goods returned from sale made on the 8th (¶ 4); 12th, sold for cash, $375.42; 15th, sold on account, $526.49; 15th, paid freight and drayage bill, $100.00 (¶ 3); 17th, purchased on account, $436.82; 20th, received credit for $86.42 for goods returned from those purchased on the 17th; 22d, received $349.75 from insurance company, in payment for goods damaged by water on account of a fire next door (¶ 6); 23d, purchased for cash, $564.99; 25th, sold on account, $237.84; 25th, a customer returned goods and was credited with the selling price, $65.40; 27th, sold on account, $409.12; 31st, paid freight and drayage bills to date, $109.62; 31st, sold entire stock of goods for cash, $2,472.48 (¶ 5). Close as explained in last paragraph, under instructions for closing the Merchandise account. (§ 31, ¶ 10.)

EXPENSE ACCOUNT.

§ 32. **The Object of this Account** is to show the cost of conducting the business. As explained in § 24, this may be shown with one account or a number of accounts. The special debits and credits given below, apply when only one account is kept.

Debit Expense:

¶ 1. For all cash or other property given in payment for services rendered in conducting the business.

¶ 2. For the cost of all property which will be consumed by its use, either on hand at the beginning of the business, or subsequently purchased.

Credit Expense:

¶ 3. For any rebates that will lessen the expense of the business.

¶ 4. For amounts received for sale of property, the value of which was charged to this account when purchased.

¶ 5. *The Difference between the two sides of this Account* will show the cost of conducting the business, and is a loss. This might be affected by the value of some property on hand which had not been consumed (¶ 2), or some service that had been rendered but not paid for (¶ 1). When this is the case, the value of such property must be deducted, and the amount owed for services added, in order to determine the net expenses. It must appear on the Profit and Loss statement among the losses.

¶ 6. *To Close the Expense Account.* The Expense account is closed because it represents a part or all the loss shown by the Profit and Loss statement. It is not closed until the end of the fiscal period. After the Profit and Loss statement has been made and proved to be correct by the Financial statement, the difference is closed into the Profit and Loss account. If there is a resource inventory (value of property not consumed), this is entered on the credit side in red ink. If there is a liability inventory (services rendered but not paid for), this is entered on the debit side in red ink. After

these have been entered, the difference shows the net expenses. This is entered on the credit side in red ink. The account is ruled with single and double red lines, and the total of each side entered in black ink, between the single and double lines. The loss shown in red ink is then transferred to the debit side of the Profit and Loss account, in black ink. Illustration No. 5 shows the Expense account closed when there is no inventory. As explained, when there are inventories, these are entered on the debit or credit side in red ink, and after the account is ruled, they are brought down on the opposite side in black ink.

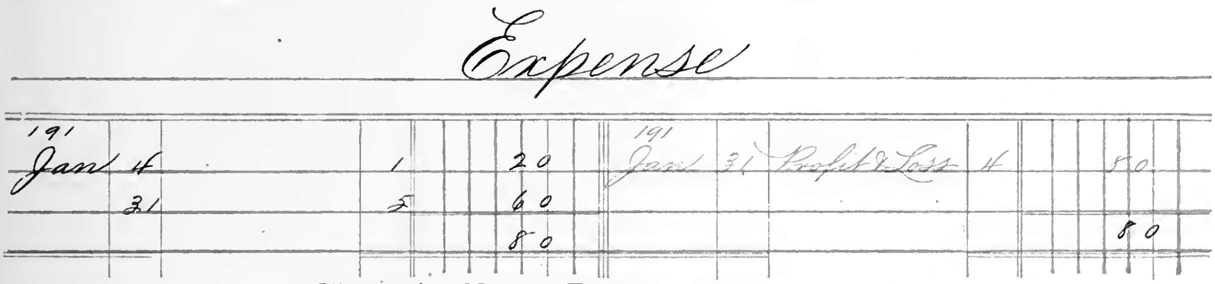


Illustration No. 5. Expense Account for January.

EXERCISES IN EXPENSE ACCOUNT.

The following exercises are given to illustrate the debits and credits explained in ¶¶ 1—4, under § 32. These are to be worked out on ledger paper as shown in illustration No. 5, and presented to the teacher for approval.

EXERCISE No. 13. January 4th, paid City and State license, $20.00 (¶ 1); 31st, paid employees' salaries, $60.00 (¶ 1); 31st, close the balance into the Profit and Loss account.

EXERCISE No. 14. February 3d, paid for stationery and blank books, $19.65 (¶ 2); 9th, paid employees, $35.00 (¶ 1); 12th, paid for one thousand letter heads and envelopes, $6.50; 19th, paid telephone rent, $12.00; 27th, paid for stamps, $5.00; 28th, paid rent, $40.00, and employees' salaries, $35.00; 28th, received $5.00 for desk room rented to W. H. Jones (¶ 3). Feb. 28th, the account is closed into the Profit and Loss account.

EXERCISE No. 15. March 1st, books, stationery and stamps on hand. $50.00 (¶ 2); 1st, paid livery bill for board of horses, $24.00 (¶ 1); 5th; paid for repairs in store, $14.50 (¶ 1); 13th, paid employees, $96.50 (¶ 1); 22d, paid for stamps, $10.00 (¶ 2); 25th, paid premium on insurance policy, $22.50 (¶ 1); 31st, paid bookkeeper's salary, $40.00, and other employees, $75.00 (¶ 1); 31st, received $6.00 as rebate on livery bill, which was for services of our horses, and was overlooked when the bill was paid (¶ 3); 31st, sold stamps to customer, $2.00 (¶ 4). March 31st, the account is closed into the Profit and Loss account. There are stamps, stationery, etc., on hand valued at $12.50; rent unpaid, $40.00.

PROFIT AND LOSS ACCOUNT.

§ 33. **The Object of this Account** is to show all the profits and losses for a fiscal period. It is a statistical account, and not used except at the close of the fiscal period, and after the books are closed it remains in balance until the next closing. It is not good practice to charge any special losses, or credit any special profits, to this account. If such occur, it is best to debit or credit the Surplus account.

Debit Profit and Loss:

¶ 1. At the close of each fiscal period with the difference of all expense accounts.

¶ 2. With the difference of all other profit or loss accounts which show a debit balance.

Credit Profit and Loss:

¶ 3. At the close of each fiscal period with the gross profit on sales.

¶ 4. At the close of each fiscal period with the difference of any profit or loss account showing a credit balance.

¶ 5. *The Difference of this Account*, at the close of the current fiscal period, shows the net profit or net loss for that period, and is transferred to the owner's Capital account; or, in case of a corporation, to the Surplus account. In case of a partnership, each partner's Capital account is debited or credited for his proportionate part of the losses or profits, according to the partnership agreement.

¶ 6. *To Close the Profit and Loss Account.* This account is closed after all accounts showing profits or losses have been closed into it. The difference at this time equals the net gain or net loss. If a gain, the balance is written on the debit side in red ink, the name of the owner of the business being written in the explanation column. If a loss, the entry is written on the credit side in red ink. The account is ruled with single and double red lines. The total of each side is entered in black ink, between the single and double lines. The difference is transferred in black ink, to the credit or debit side of the owner's Capital account. This entry is on the opposite side from the red ink entry.

Some accountants do not use the Profit and Loss account in closing the ledger, but close all of the accounts showing profits or losses into the proper Capital or Surplus account by a journal entry. It is not good practice to do this, as there should be an account in the ledger which shows the same facts as the Profit and Loss statement.

Profit & Loss

191 Jan	31	Expense	4	80	191 Jan	31	Mdse.	2	262 81
	31	W.H.Goodwin, Cap.	1	182 81					
				262 81					262 81

Illustration No. 6. Profit and Loss Account, January 31.

EXERCISES IN PROFIT AND LOSS ACCOUNTS.

The following exercises are given to familiarize the student with the debits and credits as explained in ¶¶ 1—4, under § 33. Work these out on ledger paper. Illustration No. 6 is exercise No. 16.

EXERCISE No. 16. January 31st, the Profit and Loss statement made by the bookkeeper for W. H. Goodwin shows a loss of $80.00 on Expense (¶ 1), and a gain of $262.81 on Merchandise (¶ 3). The net profit is closed into his Capital account.

EXERCISE No. 17. February 28th, the Profit and Loss statement made by the bookkeeper for Robert Clark, shows the following profits and losses: Losses, Expense, $80.00 (¶ 1); Interest, $5.00 (¶ 2). Gains, Merchandise, $298.75 (¶ 3); Discount, $5.65 (¶ 4). The net gain is transferred to his Capital account.

EXERCISE No. 18. At the close of the business March 31st, the Profit and Loss statement made by the bookkeeper for D. W. Jones, shows the following profits and losses: Losses, General Administrative Expense, $501.08 (¶ 1); Selling Expense, $408.95 (¶ 1); Discount, $9.87 (¶ 2). Gains, Gross Trading Profit, $1,286.29 (¶ 3); Interest, $4.25 (¶ 4); Income from Real Estate, $65.00 (¶ 4). The net gain is closed into his Capital account.

INVESTMENT ACCOUNT.

§ 34. **The Object of this Account** is to show the capital of the business; that is, the money invested in the business by the owner at the beginning, subsequent investments, withdrawals from the capital, and the profit or loss made by conducting the business. The account is named for the investor, and should have the word "Capital" written after his name, to indicate that this account shows the capital of the business. If desired, two accounts may be kept with the owner, one showing,

the capital and the other his withdrawals for services rendered the business. The investment may be made by one person, two or more persons as partners, or three or more persons as a corporation.

Debit the Investment Account:

¶ 1. For any debts owed at the beginning of the business if they are assumed by the business.

¶ 2. For all amounts withdrawn from the capital invested. This does not include amounts withdrawn for services rendered the business.

¶ 3. For the debit excess of the Personal account, if one is kept, and the balance is closed into the Capital account.

¶ 4. For the net loss as shown by the debit balance of the Profit and Loss account when that account is closed at the end of the fiscal period.

Credit the Investment Account:

¶ 5. For the value of all property invested at the beginning of the business.

¶ 6. For all subsequent investments.

¶ 7. For the credit excess of the Personal account, if one is kept, and the balance is closed into the Capital account.

¶ 8. For the net profit as shown by the credit balance of the Profit and Loss account when that account is closed at the end of the fiscal period.

¶ 9. *The Balance of the Investment Account* is the net amount invested in the business. After the accounts have been closed at the end of the fiscal period, the difference shows the present capital, which is the investment, plus the profit, or minus the loss, for the period. It appears on the Financial, and Profit and Loss statements.

¶ 10. *To Close the Investment Account.* At the end of the fiscal period, the Profit and Loss account is closed into the Investment account. This account is closed by writing in red ink, on the debit side, the difference of the account, the date of closing, and the words "Present Capital;" it is then ruled with single and double red lines, and footed with black ink. The Present Capital is brought down on the credit side, in black ink, under date of the day following the closing, which is the date of the beginning of the new fiscal period.

W. H. Goodwin Capital

191 Jan	31	Pres Cap	✓	2182 81	191 Jan	1		1	2000 00
						31	Net Gain	4	182 81
				2182 81					2182 81
					Feb	1	Pres Cap		2182 81

Illustration No. 7. An Investment or Capital Account.

EXERCISES IN INVESTMENT ACCOUNTS.

The following exercises are given to illustrate the various debits and credits affecting the Investment account, as described in ¶¶ 1—8, § 34. These are to be worked out on ledger paper and approved by the teacher. Illustration No. 7 is exercise No. 19.

EXERCISE No. 19. January 1st, W. H. Goodwin invested $2,000.00 in the retail grocery business (¶ 5); January 31st, the Financial, and Profit and Loss statements were made, and his net gain shown to be $182.81, which was credited to his account when the Profit and Loss account was closed (¶ 8). See illustrations Nos. 6 and 7.

EXERCISE No. 20. February 1st, Robert Whittle invested $2,000.00 in the retail shoe business; 10th, withdrew $500.00 (¶ 2); 16th, withdrew $1,000.00; 25th, withdrew $100.00; 27th, invested $500.00 (¶ 6); 28th, his account is charged with $63.50, the balance of his Personal account (¶ 3); 28th, the Financial, and Profit and Loss statements are made, and his account credited with the net profit, $416.25, at the time the Profit and Loss account is closed (¶ 8).

EXERCISE No. 21. March 1st, W. W. Woodruff begins the retail drug business with the following resources and liabilities: Cash, $4,000.00 (¶ 5); Real Estate valued at $2,500.00 (¶ 5). He owes A. L. Jones $216.50 (¶ 1), and a note of $1,000.00 on the real estate (¶ 1); 10th, invested $1,100.00 21st, withdrew $400.00; 31st, the debit balance of his Personal account is $45.25, and this amount is transferred to his Capital account; 31st, the Financial, and Profit and Loss statements were made and show a net profit of $622.48. The Profit and Loss account is closed, and this is transferred to the credit of his Capital account.

QUESTIONS.

1. What is the object of the Cash account? (§ 27.)
2. Name two special debits. (¶¶ 1, 2.)
3. Name two special credits. (¶¶ 3, 4.)
4. What does the balance show? (§ 27.)
5. Why is the Cash account closed? (§ 27.)
6. What does it show on the Financial statement? (§ 27.)
7. Define Personal accounts. (§ 28.)
8. What is the object of accounts with customers? (§ 29.)
9. Name three debits. (¶¶ 1—3.)
10. Name three credits. (¶¶ 4—10.)
11. What does the balance show? (§ 29.)
12. What does it represent on the Financial statement? (§ 29.)
13. Why are accounts with customers closed? (§ 29.)
14. How are special payments designated? (§ 29, Note.)
15. What is the object of accounts with creditors? (§ 30.)
16. Name three of the special debits. (¶¶ 1—8.)
17. Name the two special credits. (¶¶ 9, 10.)
18. What does the balance show? (§ 30.)
19. What does it represent on the Financial statement? (§ 30.)
20. Why are accounts with creditors closed? (§ 30.)
21. How are special payments designated? (§ 29, Note.)
22. What is merchandise? (§ 31.)
23. What is the object of the Merchandise account? (§ 31.)
24. Name the four debits. (¶¶ 1—4.)
25. Name the three credits. (¶¶ 5—7.)
26. What does the difference show if there is no inventory? (§ 31.)
27. What does the difference show if there is an inventory? (§ 31.)
28. Why is it necessary to take the value of the inventory into consideration in estimating the profit? (§ 31.)
29. How does the Merchandise account affect the Trading statement? (§ 31.)
30. Why is the Merchandise account closed? (§ 31.)
31. What is the object of the Expense account? (§ 32.)
32. Name two special debits. (¶ 1, ¶ 2.)
33. Name two special credits. (¶ 3, ¶ 4.)
34. What does this account show on the Profit and Loss statement? (§ 32.)
35. Why is the Expense account closed? (§ 32.)
36. What is the object of the Profit and Loss account? (§ 33.)
37. What does it show? (§ 33.)
38. Why is it closed? (§ 33.)
39. Can the ledger be closed without the Profit and Loss account? (§ 33.)
40. What is the object of the Investment account? (§ 34.)
41. Name two special debits. (¶¶ 1—4.)
42. Name two special credits. (¶¶ 5—8.)
43. What does the balance show? (§ 34.)
44. Why is the Investment account closed? (§ 34.)
45. After it is closed, where is the Present Capital written? (§ 34.)

BLANK BOOKS.

§ 35. **Blank Books** are made up of writing paper with such ruling as may be desired. The various columns represented by the ruling may be explained by printed headings. Blank books are prepared so as to contain a record of business transactions. There are two classes—books of original entry, and books of complete entry. Illustration No. 8 shows one form of ruling for a book of original entry; illustration No. 9 shows one form of ruling in books of complete entry.

§ 36. **Books of Original Entry.** These books are used to record the transactions as they occur. This record must show the *name* of the account *debited*, the *name* of the account *credited*, the *amount* debited and credited, the *explanation* or information for the auditor. In a mercantile or trading business, the books of original entry are (a) the journal, (b) sales book, (c) purchase book, and (d) cash book.

§ 37. **Books of Complete Entry.** While the record of the transactions as given in the book, or books, of original entry will show all the facts, yet it is necessary that all the transactions relative to each account be grouped together. The book in which these facts are shown is the *Book of Complete Entry.* In a mercantile or trading business, these are usually (a) the *general ledger*, (b) one or more *sales ledgers*, and (c) one or more *purchase ledgers*, depending entirely upon the number of transactions to be recorded. The complete history of each account is shown, all the debits appearing on the debit side, and the credits on the credit side. This information is obtained from the book of original entry, the amounts being transferred (posted) from time to time, usually once each day. Each entry must show the *date* (year, month, and day of month), *amount* and *page* in the book of original entry. The page is important, as it may be necessary to refer to the original transaction. Books of complete entry are books of accounts, because they contain nothing except the complete history of all the transactions that relate to any particular account, each having a separate page or part of a page.

The various books of original and complete entry will be explained as introduced. At the beginning only two books are introduced, the journal as the book of original entry, and the ledger as the book of complete entry.

§ 38. **The Journal is a Book of Original Entry,** and is to contain a history of the transactions as they occur. It is the only book of original entry in which all the transactions may be recorded. The record must show four important points, as follows: First, the *date*; that is, the day of the month and year on which the transaction occurred; Second, the *name* of the account debited, and the amount; Third, the *name* of the account credited and the amount; Fourth, the *explanation*, which is the information for the auditor, or any one who may wish to know why the entry was made. Each of these four points is very important, and the student must not get the impression that one is more important than the other. Note illustration No. 8, and the explanation given.

The journal is the only book of original entry in which the account showing the debit, and the account showing the credit can be recorded. The student who knows nothing of the principles of double entry bookkeeping must understand that each transaction affects at least two accounts, one being debited and the other credited. For this reason, the journal is the only book of original entry used at the beginning. The student who understands how to record transactions in the journal will have no trouble in making the record in any other book or books of original entry.

Journalizing is recording transactions in the journal. This refers to the complete entry, which includes the date, account or accounts debited, account or accounts credited, amounts debited and credited, and the explanation or information for the auditor.

Date of the Opening Entry or the First Transaction.

Debit. *Credit.*

(Left Blank)	L. F.	*Name of account debited.*	*Dollars*	*Cents*		
		Name of account credited.			*Dollars*	*Cents*
		Here is written a complete history of the transaction. Do not sacrifice clearness for brevity.				
		Date.				
	3	**Mdse.*	77	30		
	4	*Borches & Co.*			77	30
		Bought on account, per invoice dated Jan. 1.				

Illustration No. 8. Form of Journal.

Explanation: The entry must be made in the journal so that errors will be avoided in transferring (posting) to the ledger. The date of the first transaction is written on the blue line at the top of the page. The date of all other transactions entered on that page, is written in the center of the pages on the first blue line below the explanation, and nothing else is written on this line. The name of the account debited is written at the left, because debits appear on the left. The amount with which this account is debited is written in the first, or debit column. The name of the account credited is written about one-half inch to the right of the one debited, and on the next blue line below. The amount is placed in the second or credit money column. The explanation is written between the ledger folio column at the left, and the money column at the right. It begins on the next blue line below the credit entry, and may occupy one or more lines, depending upon the number of words necessary to explain the entry. Thus, each transaction will, of necessity, occupy at least four lines, one for the date, one for the name of the account debited, one for the name of the account credited, and one for the explanation. As a general rule, the explanation will occupy more than one line.

§ 39. **The Ledger is a Book of Complete Entry,** and is to contain a history of the transactions with each account; it is sometimes called a book of accounts (§ 16). As each account has two sides (§ 17), the ruling in this book must provide for these two sides. As a general rule, the ruling on both sides is the same, because the transactions are the same, except that they affect the account in a different manner. Illustration No. 9 shows the simplest form of the ledger. The student will note that the debit side has two columns for the date, an explanation column, a column for the page of the book of original entry, and a column for dollars and cents. The ruling on the credit side is the same. No entries are written in the ledger, except as they are transferred from some book of original entry, except when the ledger is closed at the end of the fiscal period by the red ink method.

NAME OF THE ACCOUNT.

Debits. *Credits.*

Year. Month.	*Day.*	*Any special explanation deemed necessary by the bookkeeper.*	*Page of the book of original entry.*	*Dollars.*	*Cents.*	*Year. Month.*	*Day.*	*Any special explanation deemed necessary by the bookkeeper.*	*Page of the book of original entry.*	*Dollars.*	*Cents.*

Illustration No. 9. Form of Ledger.

Explanation.—The heavy line in the middle divides the account into two distinct sides, the rulings of which are exactly alike. The space at the extreme left on each side is for the year and month, and the one next to it is for the day of the month on which the transaction occurred. The explanation given in the third space, together with that given in the reference, is sufficient. The fourth space is also made clear by the explanation given. This enables the bookkeeper to find the original transaction when it becomes necessary. The last columns, those at the right, show the value of the transaction or the account in dollars and cents.

§ **40. Recording Transactions.** The form of recording transactions in the journal and the steps necessary to make a correct record have been explained (§ 38). The accounts to be debited and credited by the transactions must be determined by the nature of the transaction. As explained in §§ 8—15, there are seven classes of transactions. The following rules are based on this classification:

§ **41. Rule 1. An Exchange of Property for Property.** Debit the account which is to represent the value of the property received, and credit the account representing the value of the property sold or given. (First entry in illustration No. 10.)

The property received may or may not be represented by an account, but the property given must be, since it would not be possible to give (sell) property that did not belong to the business.

§ **42. Rule 2. An Exchange of Credit for Property.** Debit the account that is to show the value of the property received, and credit (a) the person from whom the property is purchased, or (b) the account that is to represent the liability. (Second entry in illustration No. 10.)

The property received may or may not be represented by an account, and the account credited may or may not be represented on the books. In other words, property of a different kind from that owned by the business, may be purchased from some firm with whom the business has had no previous dealings.

§ **43. Rule 3. An Exchange of Property for Credit.** Debit (a) the person who receives the property, or (b) the account that is to represent the debit, and credit the account that shows the value of the property given.

The account debited may or may not be represented on the books, but the account credited must be, because property could not be sold or given, unless it belonged to the business. (Third entry in illustration No. 10.)

§ **44. Rule 4. Property Given in Payment of an Obligation.** Debit (a) the person who gets the property, or (b) the account that represents the obligation, and credit the account that shows the value of the property given. (Fourth entry in illustration No. 10.)

Both the accounts debited and credited must appear on the books, as the business would not pay obligations it did not owe with property it did not have.

§ **45. Rule 5. Property Received in Payment of a Debt Due the Business.** Debit the account that is to represent the property received, and credit (a) the person from whom it is received, or (b) the account that represents the debt. (Fifth entry in illustration No. 10.)

The property received may or may not be represented by an account, but the account credited must be, as no customer would pay an obligation he did not owe.

§ **46. Rule 6. An Exchange of Property for Services.** Debit the account that is to represent the value of the services, and credit the account that represents the value of the property given in payment for the services.

The services purchased may or may not be represented by an account, but the property given in exchange must be. (Sixth entry in illustration No. 10.)

§ **47. Rule 7. An Exchange of Services for Property.** Debit the account that is to represent the value of the property received, and credit the account that is to represent the value of the services rendered. (Seventh entry in illustration No. 10.)

The accounts debited and credited may or may not appear on the books, as it might be possible for the business to receive property not represented on the books in payment for services not represented.

From the rules 1—7, we deduct the general rule for debits and credits which every student should commit to memory.

§ 48. **General Rule:** DEBIT WHAT IS RECEIVED, AND WHO OR WHAT COSTS VALUE; CREDIT WHAT GOES OUT, AND WHO OR WHAT PRODUCES VALUE.

JOURNAL ENTRIES ILLUSTRATING RULES 1—7.

Mdse.	216 87	
Cash		216 87
Bought, for cash, per invoice of this date.		
2		
Mdse.	136 75	
Hazen & Lotspeich		136 75
Bought, on account, per invoice Jan. 6.		
3		
Central Hotel	52 50	
Mdse.		52 50
Sold on account 10 brls. R. K. Flour @ $5.25		
4		
Hazen & Lotspeich	136 75	
Cash		136 75
Paid in full of account.		
5		
Cash	52 25	
Central Hotel		52 25
Rec'd in full of account.		
6		
Expense	35	
Cash		35
Paid rent for January		
7		
Cash	15 67	
Interest		15 67
Rec'd of James Warren for interest on his note.		

Illustration No. 10. The Practical Application of the Rules 1—7.

EXERCISES IN JOURNALIZING.

The student will work out the following exercises on journal paper, and have his work approved by the teacher. It is best to use the stock ruled paper, as it requires too much time to do the ruling. Complete exercise No. 22 and have this approved, then prepare exercise No. 23.

NOTE—If desired, the teacher may have the student post exercises Nos. 22 and 23 to the ledger, and take a Trial Balance. If he does, the student must read §§ 60—66 and note illustration No. 17.

EXERCISE No. 22. January 1st, bought of Jones Bros., on account, merchandise per invoice of this date, $216.87 (§ 42); 2d, bought of Hazen & Lotspeich, on account, merchandise per invoice of the 1st, $75.42 (§ 42); 3d, sold A. C. Brown, for cash, 200 pounds lard at 13 cents, 20 bu. Irish potatoes at 90 cents (§ 41); 4th, bought of Borches & Co., for cash, merchandise per invoice of this date, $18.72 (§ 41); 5th, sold A. C. Woods, for cash, 20 brls. Roller King flour at $5.50 (§ 41); 6th, sold W. H. Brown, on account, 10 brls. White Lily flour at $6.25 (§ 43); 8th, paid cash to Hazen & Lotspeich for invoice bought on the 2d (§ 44); 8th, sold Central Hotel, on account, 20 brls. Roller King flour at $5.50 per brl. (§ 43); 9th, bought of Borches & Co., on account, merchandise per invoice of the 8th, $167.92 (§ 42); 10th, sold J. C. Wilson, on account, 100 bu. corn at 75 cents (§ 43); 11th, received cash, $50.00, on account, from the Central Hotel (§ 45); 12th, bought of B. B. Miller, on account, merchandise per invoice of the 10th, $84.75 (§ 42); 13th, paid telephone rent for the month, $10.00 (§ 46); 13th, received cash, $62.50, from W. H. Brown, in payment for the bill sold him on the 6th (§ 45); 15th, bought of Davis Bros., on account, merchandise per invoice of the 7th, $203.18 (§ 42); 15th, sold J. H. Henry, on account, 25 brls. White Lily flour at $6.25 (§ 43); 16th, paid clerk's salary, $20.00 (§ 46); 17th, received $25.00 in cash from J. H. Henry, to apply on account (§ 45); 17th, bought of Jones Bros., on account, merchandise per invoice of the 12th, $162.50 (§ 42); 17th, received cash from C. H. Warren for 100 brls. of flour at $5.25 (§ 41); 18th, paid Davis Bros., $203.18 in full for bill purchased on the 15th (§ 44); 18th, received $25.00 from the First National Bank in payment of the interest due on certificate of deposit (§ 47); 18th, sold C. H. Warren, on account, 200 lbs. lard at 13 cents; 100 lbs. ham at 13 cents (§ 43); 19th, paid the Central Coal Co., $12.00 for coal delivered today (§ 32); 19th, paid Borches & Co., $100.00 on account (§ 44); 20th, received $25.00 from J. C. Wilson, on account (§ 45); 20th, paid Jones Bros., $100.00, on account (§ 44); 20th, received cash from O. M. Bailey for 100 bu. of Irish potatoes at 90 cents (§ 41); 22d, sold A. L. Jones, on account, 10 brls. Roller King flour, at $5.50; 100 bu. Irish potatoes, at 90 cents (§ 43); 22d, paid M. M. Condon cash for freight and drayage, $46.25 (§ 31); 23d, paid B. B. Miller, in cash, $84.75 for bill of the 12th (§ 44); 24th, paid Robt. Smith, $40.00, interest due him on note (§ 46); 25th, paid $16.00 for delivering goods (§ 32); 26th, received cash from C. H. Warren in full for bill sold the 18th (§ 45); 27th, received from Johnston Bros., $62.55, commission due on sales today. (Credit Commission. § 47); 29th, received cash of D. A. Tower, $62.50, payment for 10 brls. of White Lily flour, at $6.25 (§ 41); 29th, paid the First National Bank $15.00, interest due on note (§ 46); 30th, paid Borches & Co., balance of bill bought on the 9th (§ 44); 31st, paid rent, $25.00; bookkeeper's salary, $25.00; clerk's salary, $20.00 (§ 46).

EXERCISE No. 23. January 1st, G. C. Youngblood invests $1,500.00 in the retail shoe business (§ 34); 2d, bought from Union Shoe Co., on account, invoice of shoes, $681.70 (§ 42); 3d, paid $25.00 in cash for telephone rent (§ 46); 4th, sold Davis Bros., on account, 10 pr. men's brogans, at $1.25; 5th, bought from Arnold, Henegar & Doyle, for cash, invoice of shoes, $365.87; 6th, paid clerk, $10.00 (§ 46); 8th, cash sales to date, $65.95 (§ 41); 9th, bought from the Hamilton Brown Shoe Co., on account, invoice of shoes, $962.48 (§ 42); 10th, sold C. W. Farr, for cash, 6 pr. ladies' bals. at $2.25 (§ 41); 11th, sold Arthur Ogden, on account, 3 pr. children's shoes, at $1.25, 1 pr. men's satin calf, $5.00 (§ 43); 12th, paid $37.50 insurance on stock and fixtures (§ 32); 13th, received $92.75 for cash sales to date (§ 41); 15th, paid Union Shoe Co., $381.70, on account (§ 44); 16th, bought from Overton Shoe Co., on account, invoice of shoes, $468.42 (§ 42); 17th, paid $25.00 for stamps and stationery (§ 46); 18th, cash sales to date, $181.90 (§ 41); 19th, sold Caleb Fall, on account, 4 pr. ladies' kids, at $1.75; 4 pr. boys' calfs, at $1.65 (§ 43); 20th, sold Jacob Dolittle, on account, 5 pr.

men's shoes at $3.00; 4 pr. women's shoes at $2.50; 6 pr. children's shoes, at 90 cents (§ 43); 20th, paid $400.00 to Hamilton Brown Shoe Co., on account (§ 44); 22d, paid clerk, $10.00 (§ 46); 23d, sold Joe Smith, for cash, 6 pr. children's shoes, at 95 cents; 1 pr. men's shoes, $4.00 (§ 41); 24th, paid $35.00 rent for the month (§ 46); 25th, cash sales to date, $206.10 (§ 41); 26th, bought for cash, invoice of shoes, $269.87 (§ 41); 27th, received $15.00 from Jacob Dolittle, on account (§ 45); 29th, sold A. J. Bowen, on account, 5 pr. men's shoes, at $3.50; 2 pr. ladies' shoes at $2.00 (§ 43); 30th, received $10.00 from Caleb Fall, on account (§ 45); 31st, paid bookkeeper's and clerk's salaries, $35.00 (§ 46).

QUESTIONS.

1. What are blank books? (§ 35.)
2. Distinguish between books of original entry and books of complete entry. (§ 36, and § 37.)
3. Define the journal. (§ 38.)
4. Name the four steps necessary to record a transaction in the journal. (§ 38.)
5. Define the ledger. (§ 39.)
6. Why is it divided into two sides? (§ 17.)
7. Why is the form of each side the same? (§ 39.)
8. How does the bookkeeper determine the accounts debited and credited? (§ 40.)
9. When property is exchanged for property, what accounts are debited and credited? (§ 41.)
10. Why must the account which represents the property given be on the books? (§ 41.)
11. When property is purchased on time, what accounts are debited and credited? (§ 42.)
12. Is it necessary for either or both of the accounts represented by the transaction to be on the books? (§ 42.)
13. When property is sold on time what accounts are debited and credited? (§ 43.)
14. Is it necessary for the account credited to be on the books? Why? (§ 43.)
15. When property is given in payment of an obligation, what is the rule for determining the accounts debited and credited? (§ 44.)
16. Why must both accounts be represented on the books? (§ 44.)
17. When property is received in payment of a debt due the business, what is the rule for determining the accounts debited and credited? (§ 45.)
18. Is it necessary for either of the accounts to be on the books? (§ 45.)
19. When property is given in exchange for services rendered the business, what is the rule for determining the accounts debited and credited? (§ 46.)
20. Is it necessary for either account to be represented on the books? (§ 46.)
21. When property is received in exchange for services rendered by the business, what is the rule? (§ 47.)
22. Is it necessary for either of the accounts to be on the books? (§ 47.)
23. Give the general rule? (§ 48.)
24. Why is it necessary to give a full explanation of the transactions recorded in the ledger? (§ 38.)
25. What is the use of the explanation column in the ledger? (§ 39.)

JANUARY.

The object of the transactions given in this month is to teach the student the practical application of the principles set forth in the foregoing matter. He is to record transactions in the journal, post them to the ledger, and at the end of the month, take a Trial Balance, make the Financial, and Profit and Loss statements, and close the ledger. The transactions may be represented by incoming vouchers, or the printed record, beginning with page 109.

§ 49. **Business Papers,** aside from the personal instructions of his employer, are the only evidence to the bookkeeper that a transaction has been made. They consist of bills or invoices, receipts, checks, notes, drafts, orders, statements, shipping invoices, account of sales, telegrams, etc. The use of each will be explained as it is introduced. In January only two are used, bills or invoices and receipts.

§ 50. **Bills or Invoices.** When goods are purchased or services rendered, the written statement, describing the same, and showing the value is called a bill or an invoice. These terms are used interchangeably; that is, sometimes a list of items bought is called a bill, and sometimes an invoice. To avoid confusion, in the instructions in this work, the list of goods *purchased* by the proprietor will be termed an *invoice*, and that of goods *sold* by him, a *bill*.

A bill is rendered that the purchaser may know all of the goods ordered, have been received, and that the calculations relative to their value have been made correctly. It should show the name of the seller, the date, the name of the purchaser, and his address, the terms, a description of the items exactly as the goods are packed, the value of each item, and the total. In all calculations where the result is a fraction of one cent, the fraction is regarded as a cent if its value is one-half or more; if less than one-half, it is discarded. See illustration No. 11 for the form of a bill.

W. H. GOODWIN

DEALER IN

Fancy Groceries, Provisions and Country Produce.

Jan 4, 191

Sold to A. R. Jennings, City

Terms account

Quantity	Items	Price	Dollars	Cts.	Total	
11	lbs Arbuckle Coffee	.20	2	20		
50	" Gran. Sugar	.06	3			
25	" Brown "	.05	1	25		
60	" Bacon	.13	7	80	14	25

Illustration No. 11. Form of Bill for sale made January 4.

§ 51. **Receipt.** A receipt is a written acknowledgment from the receiver to the giver of money or other property received, in payment for some form of indebtedness. It is not customary to give receipts when the property is paid for at the time of the purchase. Receipts should be bound in book form, and each one provided with a stub, so that a permanent record of each receipt issued may be

kept. The stub should be filled out first, because it is the information to the bookkeeper, and if left blank, may cause him trouble. Illustration No. 12 shows the ordinary form of a receipt.

No. 1	No. 1 January 9, 191
Date Jan 9, 191	Received of A. R. Jennings
To A. R. Jennings	Ten $\frac{00}{100}$ Dollars
For Account	On account
Amount $10 $\frac{00}{100}$	$10 $\frac{00}{100}$ W. H. Goodwin
	By Student

Illustration No. 12. Receipt, January 9.

§ 52. **Duties of a Bookkeeper.** In general, the duty of the bookkeeper is to record the transactions as they occur, audit all incoming papers, write all business papers that go out, keep the cash in balance, post to the ledger, prove the correctness of the ledger by a Trial Balance at the end of each month, and ascertain the Present Capital and correct gain by Financial, and Profit and Loss statements at the end of each fiscal period. As the principal duty of the bookkeeper is to record transactions, and see that all the incoming and outgoing papers are made out correctly, it is necessary that he be accurate, quick at figures, and neat. He should have a proper knowledge of accounting, so that he can use the best method of classifying the accounts and thus avoid his employer having to pay for the services of an expert accountant to do this.

§ 53. **Making a Proper Record of the Transactions.** This includes the writing of the transaction in the books of original entry, and the proper transfer to the accounts in the ledger. The four important steps for recording a transaction in the journal are, the *date*, the name of the account *debited* and the amount, the name of the account *credited* and the amount, and the explanation or information for the auditor.

§ 54. **Auditing Incoming Papers.** The bookkeeper can not accept any paper as correct until he has proved its correctness by a careful audit. This can not be too strongly impressed upon the mind of the beginner, and in order to encourage the proper auditing of the papers, some of those received by the student are intentionally incorrect. It will require a careful audit of each paper received in order to determine the ones that are correct, and the student who does not do this will have trouble with his work.

§ 55. **Writing Outgoing Papers.** Each sale requires a bill and unless a bill clerk is employed, it is the duty of the bookkeeper to make this. He may also be required to write checks, notes, and other business papers.

§ 56. **Keeping the Cash in Balance.** The cash on hand (in the safe and bank, or in both), must at all times be the same as the balance shown by the Cash account or cash book. If the record has been kept correctly, and no cash lost, the results will prove. The method of proving will be explained later.

The auditor will check the receipts and payments of cash first, and the bookkeeper must not only keep a correct record of all cash received and paid, but be prepared to prove to the auditor that his record is correct.

§ 57. **Terms, "On Account."** When credit is allowed or received, for property sold or purchased, and no fixed time for payment is mentioned, the sale or purchase is said to be "On account." Legally, the amount is due, and could be collected as soon as the property is delivered, but custom

has fixed the time of payment as the first of the following month. If no terms are stated, the above will be understood.

§ 58. **License.** The advantages and protection of modern civilization do not come free of charge to those who have property. The expense of the government must be paid, and to do this, taxes are levied. There are two methods of taxation; one by charging a certain per cent of the value of the property, and the other by charging for certain privileges. The right to grant these privileges is retained by the government. The latter is termed "License," and is a charge against those who engage in business. Usually no license is charged for disposing of articles grown by the seller, or those manufactured for his own use. Licenses are granted by an incorporated city, a county, a state, or the United States government.

§ 59. **Files.** In every well regulated business house will be found convenient receptacles or files, in which all incoming papers are kept. These are so arranged that any paper may be found with the least inconvenience. This is absolutely necessary in order that immediate reference may be made to facts set forth in the desired papers. The files used by the student are arranged to contain the different papers received, a compartment for each. The papers are filed in the order received.

Each transaction in business is represented by some business paper, and the bookkeeper must carefully file each of these papers, so that the facts stated in the explanation, in the book of original entry, may be confirmed by the original paper. An auditor will not take it for granted that the explanation given by the bookkeeper is correct, but will insist on comparing this with the paper. For this reason the explanation must be expressed so that the auditor will know the paper that represents the transaction, and in which file it is to be found.

§ 60. **Posting from the Journal.** Transferring the amounts from the journal to the ledger is called posting. This is done so that each account in the ledger will show all of the amounts debited or credited to it. The record in the journal shows the date of the transactions, the name of the account debited and the amount, and the name of the account credited and the amount. When posting, each amount in the debit column is posted to the debit side of the account written on the same line with it. Each amount in the credit column is posted to the credit side of the account written on the same line with it. If the account is not in the ledger, it is necessary to write it in before posting. Enter in the ledger in the following order: First, the amount; second, the page in the journal; third, the date; fourth, any special information, which is entered in the explanation column. The amounts are posted in the same order as the transactions are recorded. To indicate that the amount has been posted to the account named, write the ledger page (L. F.) of this account in the ruled column at the left of the journal, and on the same line with the account.

The student will observe from the various illustrations that the name of the account in the ledger is written so that the beginning and end will be an equal distance from the left and right side of the page. Accounts that appear at the top of the page are written on the light blue line above the heavy line. Where more than one account is written on a page, a red line is drawn all the way across, and the name of the account written on this.

NOTE—Posting is transferring the amounts from any book of original entry to the ledger. The above instructions refer to the journal only because at this time it is the only book of original entry from which the student posts. Instructions relative to posting amounts from other books of original entry will be given when introduced.

§ 61. **Instructions for Posting, January 13th.** The following instructions are given to illustrate the above explanation of posting. The student should read the instructions, comparing the entries in the journal, illustrations Nos. 13 and 14, with the entries in the ledger, illustrations Nos. 15 and 16. It would be well to go over this very carefully before posting from the journal to the ledger.

FIRST TRANSACTION. Open your journal at the first page and notice the accounts affected by the first transaction, also the amounts. The *first* amount, "2000," is written in the left or debit

(Continued on page 44.)

January 1, 191

	Cash	2000	
	W. A. Goodwin		2000
	Invested in the Retail Grocery Business.		
	2		
	Mdse.	77 30	
	Borches & Co.		77 30
	Bought, on account, per invoice dated Jan. 1.		
	3		
	Mdse.	134 95	
	Kaiser Bros.		134 95
	Bought, on account, per invoice dated Jan 2		
	4		
	Expense	20	
	Cash		20
	Paid City and State license for one year.		
	4		
	A. R. Jennings	14 25	
	Mdse		14 25
	Sold, on account		
	11 lbs. Arbuckle Coffee 20¢ $2.20		
	50 " Gran Sugar 6" 3.00		
	25 " Brown " 5" 1.25		
	60 " Bacon 13" 7.80		
	5		
	Mdse.	1 92	
	Cash		1 92
	Bought of J. Allen Smith & Co., for cash, per invoice of this date.		
	6		
	Cash	30	
	Mdse.		30
	Rec'd cash for sundry sales		

Illustration No. 13. Journal, January 1—6.

January 6, 191

Borches & Co.			77 20	
Cash				77 20
Paid Borches & Co. in full of account				
8				
Central Hotel			57 25	
Mdse.				57 25
Sold on account				
5 brls. Roller King	$5.10	$25.50		
3 " White Lily	6.25	18.75		
3 Hams, 45 lbs	.13	5.85		
100 lbs. Gran Sugar	.06	6.00		
25 scks Salt	.05	1.25		
9				
Cash			10	
A. R. Jennings				10
Received on account				
10				
Mdse.			228 60	
Hazen & Lotspeich				228 60
Bought on account, per invoice, of this date.				
11				
A. R. Jennings			54 25	
Mdse.				54 25
Sold on account				
6 doz. Canned Peaches	$1.35	$8.10		
5 " " Tomatoes	1.10	5.50		
3 cans, 155 lbs. Lard	.13	20.15		
2 brls. White Lily	6.25	12.50		
61½ lbs. Bacon	.13	8.00		
12				
Cash			20	
Central Hotel				20
Received on account				
13				
Cash			40	
Mdse.				40
Rec'd for sundry cash sales.				

Illustration No. 14. Journal, January 6—13.

W. H. Goodwin Capital

191					191				
					Jan	1		1	2000

Cash

191					191				
Jan	1		1	2000	Jan	4		1	20
	6		1	30		5		1	192
	9		2	10		6		1	77 30
	12		2	30		13		2	100
	13		2	40					389 30
				2110					

Merchandise

191					191				
Jan	2		1	77 30	Jan	4		1	14 25
	3		1	134 95		6		1	30
	5		1	192		8		1	57 35
	10		2	228 60		11		2	54 25
				632 85		13		2	40
								3	52 40
									248 25

Expense

191									
Jan	4		1	20					

Illustration No. 15. Ledger Accounts, January 1—13.

Borches & Co.

Date			Fo.		Amount	Date			Fo.		Amount
191 Jan.	6		1		77 20	191 Jan.	2		1		77 20

Kaiser Bros.

Date			Fo.		Amount	Date			Fo.		Amount
191 Jan.	13		2	a	1 00	191 Jan.	2		1	a	134 95

A. R. Jennings

Date			Fo.		Amount	Date			Fo.		Amount
191 Jan.	4		1	a	14 25	191 Jan.	9		2	a	10
	11		2		54 25						

Central Hotel

Date			Fo.		Amount	Date			Fo.		Amount
191 Jan.	8		2		57 35	191 Jan.	12		2		30

Hazen & Lotspeich

Date			Fo.		Amount	Date			Fo.		Amount
						191 Jan.	10		2		228 60

M. A. Johnson

Date			Fo.		Amount	Date			Fo.		Amount
191 Jan.	13		3		52 40						

Illustration No. 16. Ledger Accounts, January 1—13.

column, and "Cash" is the name of the account written on the same line with it; therefore you will turn to the Cash account in your ledger, page 2, and in the debit or left money column write "2000;" in the page column, the one just to the left of the money column, write "1," the page in the journal on which the transaction is recorded; in the month column, the one at the extreme left, write "Jan.," the month in which the transaction occurred, (see note page 47); in the day of the month column, the one just to the right of Jan., write "1," the day of the month. See first entry on the debit side of the Cash account, illustration No. 15. To show that the item has been posted, turn to your journal, and, in the column ruled on the left side, write on the same line as Cash, "2," the page in the ledger on which this account is written.

Now turn to the journal and notice the *second* part of the first transaction. The amount, "2000," is written in the right or credit column, and W. H. Goodwin is the name of the account written on the same line with it; therefore you will turn to W. H. Goodwin's account in the ledger and in the credit or right hand money column, write the amount, "2000;" in the page column, the one just to the left of the money column, write "1," the page in the journal on which the transaction is recorded; in the month column, the one at the extreme left, write "Jan." (see note page 47); and in the column to the right of it, write "1," the day of the month. See entry on the credit side of W. H. Goodwin's account, illustration No. 15. To show that the item is posted, in the column ruled at the left side of the journal, write on the same line with W. H. Goodwin's name, "1," the page of his account in the ledger.

This completes the posting of the two accounts affected by the first transaction. You will notice, by referring to the ledger, that the Cash account shows $2,000 received, and that W. H. Goodwin's account is credited for this amount.

SECOND TRANSACTION. By referring to your journal you will observe that this transaction also affects two accounts, "Mdse." and "Borches & Co.," the amounts being written on the same line as the accounts affected. You will notice that the *first* amount, "77.30," is in the debit column, and that "Mdse." is the name of the account written on the same line with it; therefore you will turn to the "Merchandise" account, page 3 in the ledger, and in the money column on the debit side write "77.30;" in the page column, the one to the left of the amount column, write "1," the page in the journal on which the transaction is recorded; in the month column, the one at the extreme left, write "Jan.," the month, and in the column to the right of this, "2," the day of the month. To show that the item is posted, turn to the journal, and in the column ruled at the left, and on the same line with Mdse., write "3," the page of the Merchandise account in the ledger. See first entry on the debit side of the Merchandise account, illustration No. 15. This completes the posting of this item.

The *second* amount, "77.30," is in the credit column, and "Borches & Co." is the name of the account written on the same line with it; therefore you will turn to their account, page 5, and in the credit money column write "77.30," the amount; in the page column write "1," the page in the journal on which the transaction is recorded; in the month column, the one at the extreme left, write "Jan.," the month; in the day of the month column write "2," the day of the month. Turn to the journal and write in the column ruled at the left, and on the same line with Borches & Co.'s name, "5," the page of their account in the ledger. See first entry on the credit side of Borches & Co.'s account, illustration No. 16. This completes the posting of the second transaction.

The ledger now shows that you have purchased $77.30 worth of merchandise, and that it has not been paid for, Borches & Co. being the ones to whom the amount is due.

THIRD TRANSACTION. Turn to your journal and notice the accounts affected by the third transaction, also the amounts. The *first* amount, "134.95," is in the debit column, and "Mdse." is the name of the account written on the same line with it; therefore you will turn to that account, page 3 in the ledger, and in the debit money column and on the second blue line, write "134.95," the amount; in the page column write "1," the page in the journal; the month column, the one at the extreme left, is left blank until the month changes, in the column to the right of this write "3," the day

of the month. See second item on the debit side of the Merchandise account, illustration No. 15. Now turn to the journal, and in the column ruled at the left, and on the same line with Mdse., write "3," the page of that account in the ledger. This completes the posting of the first item.

The *second* amount, "134.95," is in the credit column, and "Kaiser Bros." is the name of the account written on the same line with it; therefore you will turn to their account, page 5 in the ledger, and write in the credit money column and on the first blue line below their name, "134.95;" in the page column write "1," the page in the journal; in the month column, the one at the extreme left, write "Jan.," the month; in the column to the right, write "3," the day of the month. See first entry on the credit side of Kaiser Bros.' account, illustration No. 16. Now in the column at the left of the journal, and on the same line with Kaiser Bros.' account, write "5," the page of their account in the ledger. This completes the posting of the third transaction.

FOURTH TRANSACTION. Turn to the journal and notice the accounts affected by the fourth transaction, dated Jan. 4, also the amounts. The *first* amount, "20," is written in the debit column, and "Expense" is the name of the account written on the same line with it; therefore you will turn to the Expense account in the ledger, page 4, and in the debit money column on the first blue line write "20;" in the page column write "1," the page of the journal; in the month column write "Jan.," the month; in the next column to the right write "4," the day of the month. See first entry on the debit side of the Expense account, illustration No. 15. In the column at the left of the journal, and on the same line with Expense, write "4," the page of that account in the ledger.

The *second* amount, "20," is written in the credit column, and "Cash" is the name of the account written on the same line with it; therefore you will turn to the Cash account, page 2 in the ledger, and on the first blue line in the credit money column, write "20," the amount; in the page column write "1," the page in the journal; in the month column write "Jan.," the month; in the column to the right of this write "4," the day of the month. See first entry on the credit side of the Cash account, illustration No. 15. In the column on the left of the journal, and on the same line with Cash, write "2," the page of that account in the ledger. This completes the posting of the fourth transaction.

The ledger now shows that $20 has been paid out for something necessary for the carrying on of the business.

FIFTH TRANSACTION. Turn to your journal and notice the accounts affected by the fifth transaction, also the amounts. The *first* amount, "14.25," is in the debit column, and "A. R. Jennings" is the name of the account written on the same line with it; therefore you will turn to his account, page 5, in the ledger, and on the first blue line below his name and in the debit money column, write "14.25," the amount; in the page column write "1," the page in the journal; in the month column write "Jan.," the month; in the column just to the right of this, write "4," the day of the month. See first entry on the debit side of A. R. Jennings' account, illustration No. 16. In the column on the left side of the journal, and on the same line with A. R. Jennings, write "5," the page of his account in the ledger.

The *second* amount, "14.25," is in the credit column of the journal, and "Mdse." is the name of the account written on the same line with it; therefore you will turn to that account, page 3 in the ledger, and on the first blue line in the credit money column write "14.25," the amount; in the page column write "1," the page in the journal; in the month column, write "Jan.," the month; in the column just to the right of this write "4," the day of the month. See first entry on the credit side of Merchandise account, illustration No. 15. Indicate the posting by writing "3," the page of this account in the ledger, in the column at the left of the journal, and on the same line with Mdse. This completes the posting of the fifth transaction.

The ledger now shows that we have sold $14.25 worth of merchandise, and, as there was nothing received in payment, A. R. Jennings is the one who owes us for it.

SIXTH TRANSACTION. Turn to your journal and notice the accounts affected by the sixth transaction, also the amounts. The *first* amount, "192," is in the debit column, and "Mdse." is the

name of the account written on the same line with it; therefore you will turn to that account, page 3 in the ledger, and on the third blue line, and in the debit money column, write "192," the amount; in the page column write "1," the page in the journal; leave the month column blank; in the column, just to the right of this, write "5," the day of the month. See third entry on the debit side of the Merchandise account, illustration No. 15. Indicate the item in the journal by writing "3" in the column to the left, and on the same line with Mdse.

The *second* amount, "192," is in the credit column, and "Cash" is the name of the account written on the same line with it; therefore you will turn to the Cash account, page 2 in the ledger, and write the amount, "192," in the credit money column, and on the first line below the last entry; in the page column, write "1," the page in the journal; the month column should remain blank; in the column to the right of this, write "5," the day of the month. Indicate the posting in the journal by writing "2," the page of the Cash account in the ledger, in the column ruled at the left and on the same line with Cash. This completes the posting of the sixth transaction.

See second entry on credit side of the Cash account, illustration No. 15.

The ledger now shows that $192 has been exchanged for that amount of merchandise. (So far this will show no profit, but should the goods be sold for more than they cost, then the Merchandise account will show that gain.)

SEVENTH TRANSACTION. Turn to your journal and notice the accounts affected by the seventh transaction, also the amounts. The *first* amount, "30," is written in the debit column, and "Cash" is the name of the account written on the same line with it; therefore you will turn to that account, page 2 in the ledger, and write the amount, "30," in the debit money column and on the first blue line below the last entry; in the page column write "1," the page in the journal; leave the month column blank; in the column to the right of this write "6," the day of the month. Indicate the posting in the journal by writing "2," the page of the Cash account in the ledger, in the column at the left and on the same line with Cash. See second entry on the debit side of the Cash account, illustration No. 15.

The *second* amount, "30," is in the credit column, and "Mdse." is the name of the account written on the same line with it; therefore you will turn to the Merchandise account, page 3 in the ledger, and in the credit money column write "30," the amount; in the page column write "1," the page in the journal; leave the month column blank; in the one ruled just to the right of this, write "6," the day of the month. Indicate the posting by writing "3," the page of the Mdse. account in the ledger, in the column at the left of the journal, and on the same line with Mdse. This completes the posting of the seventh transaction.

See second entry on credit side of Mdse. account, illustration No. 15.

The ledger shows that merchandise to the amount of $30 has been sold, for which cash was received.

EIGHTH TRANSACTION. Turn to your journal and notice the accounts affected by the eighth transaction, also the amounts. The *first* amount, "77.30," is in the debit column, and "Borches & Co." is the name of the account written on the same line with it; therefore you will turn to their account, page 5 in the ledger, and write on the debit side in the money column, "77.30," the amount; in the page column, write "1," the page in the journal; in the month column write "Jan.," the month; and in the day of the month column, "6," the day of the month. See first entry on debit side of Borches & Co.'s account, illustration No. 16. Indicate the posting by writing "5," the page of Borches & Co.'s account, in the ledger, in the column in the journal to the left and on the same line with Borches & Co.

As this is all we owe them, and the account balances, you will rule it with a single red line under the amount on each side. See Borches & Co.'s account, illustration No. 16, also read "Ruling Personal Accounts," § 62.

The *second* amount, "77.30," is in the credit column, and "Cash" is the name of the account written on the same line with it; therefore you will turn to the Cash account in the ledger and write

"77.30," the amount, in the credit money column; in the page column write "1," the page in the journal; leave the month column blank; in the day of the month column write "6," the day of the month. See third entry on credit side of the Cash account, illustration No. 15. Indicate the posting in the journal by writing "2," the page in the ledger, in the column at the left, and on the same line with Cash. This completes the posting of the eighth transaction.

The ledger now shows that we have $77.30 less cash, but we also owe Borches & Co. that amount less.

The student should now be able to go forward with the posting without any further aid, but in case he does not understand it, the teacher will give further instructions.

After the posting is completed, compare the ledger with the accounts given in illustrations Nos. 15 and 16.

NOTE.—The year must be written on both the debit and credit side of each account in the ledger. This is written in the month column and above the name of the month when the first item is posted to either side. One time is sufficient for each year. The student is apt to overlook the importance of this because all of his work is usually represented by one year. If he writes the year as instructed he is not so apt to omit it when he accepts a position in an office.

§ 62. Ruling Personal Accounts. Personal accounts are very seldom ruled, except when they balance, because if left alone they will balance. When a personal account balances by being paid, it is ruled with a single red line on the light blue line, just beneath the last entry. This line is drawn across the dollars and cents column, on each side of the account; when possible, it should be ruled on the same blue line. Thus, if three amounts on the debit side balance one amount on the credit side, and there is no other entry on the credit side, the red line would be ruled on the third blue line on each side. If there is another entry on the credit side, the line is drawn on the third blue line on the debit side, and on the first blue line below the amount on the credit side.

The account should be ruled as soon as the amount is posted. If there are two or more amounts on either side, these should be footed and the total entered in pencil figures to show that the two sides are equal. Unless footed, the bookkeeper might rule an account that did not balance.

§ 63. Important Points about Posting from the Journal.

The following is a brief summary of the instructions given in § 60 and § 61, and are the things to be learned:

FIRST: Keep a blotter under your hand at all times; this will insure neatness and cleanliness.

SECOND: Each amount written in the debit column in the journal is posted to the debit side of the ledger, under the name of the account written on the same line with it; each amount written in the credit column is posted to the credit side of the ledger, under the name of the account written on the same line with it.

THIRD: The name of the account in the ledger to which the amount is to be posted, is written on the same line with the amount in the journal.

FOURTH: The page of the account in the ledger is written to the left of the name in the journal, when the amount is posted, and indicates that it has been posted.

FIFTH: The page on which the transaction is entered in the journal, is placed in the page column to the left of the amount in the ledger, so that reference can be made to the original entry, if desired.

SIXTH: The name of the account in the ledger is written in the center of the page, from right to left. If it appears at the top of a page, it is written on the light blue line; if written at any other place on the page, a red line is drawn all the way across the page, on the blue line on which it is written.

SEVENTH: When an amount is posted to an account, and the two sides are made equal by this amount, rule the account at once. Personal accounts are ruled by drawing a single red line just beneath the blue line on which the last entry is made, and across the dollars and cents column on each side.

EIGHTH: The year must be written at the top of the date column, on each side of the ledger account, and is not written again until the next year.

NINTH: The name of the month is written once in the date column, and the column is then left blank until the month changes.

TENTH: The day of the month is written in the second column, at the left. If two or more transactions occur on the same date, the figures may be repeated, but are usually left blank until the date changes.

ELEVENTH: Where the amount is expressed in dollars, it is not necessary to write ciphers.

TWELFTH: The entry is made in the ledger in the following order—amount, page of the journal, date, and special information.

THIRTEENTH: Special information refers to terms of bills, the time of notes, the particular kind of property represented by the account, and such other information as will enable the owner to know the reason for the debit or credit.

§ 64. **Proving Cash.** The balance of the Cash account must be the same as the cash on hand. The cash on hand may be in the safe, in the bank, or a part in each place. When the Cash account is kept in the ledger, it can not be proved until all the transactions relative to cash have been posted. When the posting is completed, the debit side shows all cash received and the credit side all cash paid. If the posting is correct, and no money has been lost, the difference of the Cash account will equal the money on hand.

After the student has completed posting, January 13th, he is instructed to prove cash; that is, ascertain if the difference of the Cash account equals the money he has in his "Money and Checks" envelope. To do this he must first foot the two sides of the Cash account, and enter the totals in small pencil figures just beneath the last entry. On a piece of scratch paper he will subtract the total of the credit side from the total of the debit side. The difference will be the same as the cash on hand, if he has made no mistake. If he has, it will be necessary to audit the various receipts and payments of cash, see that the correct amount of money was placed in the cash file, at the time it was received, and the correct amount paid out at the time he was instructed to make the payment. The second account in illustration No. 15 shows the Cash account as it should appear in his ledger.

§ 65. **Checking the Posting.** Errors are apt to be made in posting either in the amount, the side of the account, or the account to which the amount should be posted. That these may be detected, the methodical bookkeeper will go over his posting, comparing the amounts in the ledger with those in the journal or other book of original entry. No definite results could be obtained by looking over the work, as errors in double posting might be entirely overlooked, and others are apt to be. To avoid this, a small check mark (√) is placed on the double line ruled at the left of the amount in the journal or other books of original entry, and the ledger. The check marks should be placed on the same vertical line, and made large enough that they may not be overlooked.

The transactions in the book or books of original entry are checked in the same order as the posting is done. When the checking is completed, any errors can be detected at a glance, because there would be no check mark opposite the amounts. As the check marks are all on the same vertical line, amounts that are not checked can be easily detected.

When the student has posted the transactions for the first thirteen days in January, he should check the posting as instructed above. Checking the posting is exactly the same as posting, except that the amounts are already written, and the object of the checking is to see that the work is correct. The check marks are written with a lead pencil, but are not erased. The practical bookkeeper will arrange to check the posting at some other time than that immediately following the posting, because errors are more likely to be overlooked at that time than later, when all the facts relative to the posting are not so fresh in his memory. This will be further explained later in the work.

QUESTIONS.

1. What are business papers? (§ 49.)
2. Distinguish between a bill and an invoice. (§ 50.)
3. When the result of calculating an item is less than one-half a cent, how is it treated? When it is one-half a cent or more? (§ 50.)
4. What is a receipt? (§ 51.)
5. Why is it best to fill out the stub first? (§ 51.)
6. Name some of the duties of the bookkeeper. (§ 52.)
7. What is meant by making a proper record of the transactions? (§ 53.)
8. What is meant by auditing incoming papers? (§ 54.)
9. Name some of the papers that the bookkeeper may be required to write. (§ 55.)
10. Why is it necessary to keep the cash in balance? (§ 56.)
11. What is meant by the term, "On Account." (§ 57.)
12. Define license. (§ 58.)
13. Why are files necessary in a business office? (§ 59.)
14. Describe posting from the journal. (§ 60.)
15. How do you indicate in the journal that the transaction has been posted? (§ 60.)
16. Why is the journal page written in the folio column in the ledger? (§ 60.)
17. When posting, what is entered in the ledger first? Second? Third? Fourth? (§ 60.)
18. Can more than one account be written on a page in the ledger? (§ 60.)
19. In your own language describe posting the transaction for January 1st. (§ 61.)
20. When are Personal accounts ruled? (§ 62.)
21. Why are they ruled? (§ 62.)
22. How are they ruled? (§ 62.)
23. Name four of the important points about posting. (§ 63.)
24. Describe in your own language the method of proving cash, January 13th. (§ 64.)
25. Why does the bookkeeper check his postings? (§ 65.)
26. Why are the check marks entered on the same vertical line in the journal? (§ 65.)
27. Why are they entered on the same line in the ledger? (§ 65.)
28. Why is it necessary to use check marks? (§ 65.)

TRIAL BALANCE.

Careful posting and checking are indications to the bookkeeper that his ledger is correct; but as the experienced bookkeeper knows, and as the student will learn, it is not absolute evidence. There is a possibility of making an error in posting and not detecting it by checking, or of making a mistake in the addition of those accounts that have more than one amount on the debit or credit side. For these, and other reasons which are explained later, there must be some additional proof of the correctness of the ledger.

A careful analysis of the work in the journal or other book of original entry, will show that this can be very easily accomplished. Each transaction recorded in the journal affects two accounts, the one debited, and the other credited; one is debited for exactly the same amount as the other is credited, because each transaction is an exchange of equal values. If the debit and credit columns of the journal are added, the total should be the same.

In posting, each amount in the debit column of the journal is posted to the debit side of the ledger; each amount in the credit column of the journal is posted to the credit side of the ledger. If the total of the two columns in the journal are equal, the total of the two sides of the ledger must be equal. A Trial Balance is taken to prove this.

§ 66. **The Trial Balance** is a list of all the accounts in the ledger, and the amount or amounts written on the debit and credit side of each. If an account balances, which is indicated by its being ruled, it would not be necessary to write it in the Trial Balance, because the two sides being equal would only increase the total of the debits and credits the same amount. If an account has two or more amounts posted to the debit or credit side, these are added, and the total only used in the Trial Balance. If there is one or more amounts on the debit side, and one or more amounts on the credit side of an account, the total of each side may be used, or the difference. Thus, if an account is debited with $100.00, and credited with $50.00, the Trial Balance would balance if it was entered as a debit of $50.00. If the posting is correct, and the addition of those accounts that have more than one amount on the debit or credit side is correct, and the totals are transferred from the ledger to the Trial Balance correctly, then the two sides must balance. This proves the facts just mentioned. It would not prove that an amount had been posted to the correct side or to the wrong account, because it only proves that the total debits and credits are equal. Thus, if J. C. Jones buys a bill of goods, and is charged with the amount in the journal, but in posting this is transferred to the debit side of the account of J. R. James, the Trial Balance would balance, but these two accounts would be wrong. Errors of this kind are usually detected in the checking.

From the above, the student will observe that the Trial Balance is a list of all the accounts in the ledger, with the total amount of the debit and credit sides, or the differences. He will also observe that, if it does not balance, it will be necessary to check his work in order to discover the error, as the error is in his work and not anywhere else.

The usual method of taking a Trial Balance is as follows:

¶ 1. *See that each Amount* in the journal or other books of original entry, and in the ledger, is checked with a check mark.

¶ 2. *Foot each Account in the Ledger* that has more than one amount on the debit or credit side, and write the total in small pencil figures just beneath the blue line on which the last entry is made.

¶ 3. *Take the Difference of the Accounts with Persons* and write it with small pencil figures in the explanation column on the larger side and just to the left of the last entry. The calculations for ascertaining this should be made on scratch paper.

¶ 4. *Check the Additions and Subtractions* just completed. Do not accept your work as correct until you have checked it.

¶ 5. *On a Sheet of Journal Paper* write the names of the accounts in the same order as they are arranged in the ledger. As each account is written, place the total debits in the first column, and the credits in the second column. The only exceptions to this, are Cash and accounts with persons, the balance of these being used. Cash is proved before the Trial Balance is made.

¶ 6. *Add the Debit Column*, and place the total in small pencil figures beneath the last amount; add the credit column and place the total beneath the last amount. The two amounts should be equal.

¶ 7. *If the Amounts are not equal*, check the work in the same order as it was done, and the error is sure to be found.

Trial Balance January 31st.

§ 67. **The Foregoing Instructions** relative to the Trial Balance should be all that the student will need, but in order that he may get a clearer understanding of the method of taking a Trial Balance, the following instructions are given in detail. If he will follow these in taking the first Trial Balance, and continue to follow them with all future ones, he will never have to call on the teacher for assistance in detecting his errors. If he is satisfied to follow the first two or three, and then depend on his own knowledge for the remainder of the work, he is sure to call on the teacher for assistance.

¶ 1. *Prove Cash as instructed in* § 64. Never undertake to take a Trial Balance until the cash has been proved.

¶ 2. *Sharpen your Pencil to a fine point and keep it sharp.* It is difficult to make neat figures with a soft pencil; hence, the harder the lead, the neater the work.

¶ 3. *Add each Account in the Ledger* having more than one amount on the debit or credit side; place the total in small pencil figures just beneath the blue line on which the last entry is made. The figures must be small, otherwise they will interfere with the amount to be entered on the next blue line.

¶ 4. *Take the Difference between the two Sides* of each of the Personal accounts and write it in the explanation column on the larger side; make the figures very small, and with a pencil; write them on the line with the last entry.

¶ 5. *Take a Sheet of Journal Paper,* that which has the same ruling as your journal, and on the blue line at the top write "Trial Balance, January 31, 191. . ."

¶ 6. *On the first blue line below the heavy line,* write the name of the first account in the ledger, which, in this case, is that of W. H. Goodwin, and in the credit column write the amount ($2,000) with which the account is credited. Write "1," the page of the account in the ledger, just to the left of W. H. Goodwin's name.

¶ 7. *On the next blue line write Cash.* In the first money column write the difference, $1,547.50. You know this is correct because you have proved the cash. At the left of the word Cash write "2," the page in the ledger.

¶ 8. *On the third blue line write Merchandise,* which is the name of the next account in the ledger; in the first or debit column, write the total of the debit side, $1,276.70, and in the second or credit column, write the total of the credit side, $657.05. Write "3," the page of the account in the ledger, just to the left of the name of the account on the Trial Balance.

¶ 9. *On the fourth blue line write Expense,* the next account in the ledger; in the first or debit column, write the total of the debit side, $80.00. At the left of the account on the Trial Balance write "4," the page of the account in the ledger.

¶ 10. *On the fifth blue line write Borches & Co.,* the name of the next account; in the second money column write $96.00, the amount with which the account is credited. Place "5," the page of the account in the ledger, to the left of the name on the Trial Balance.

¶ 11. *Omit Kaiser Bros.'* account, as the two sides are equal, as indicated by the ruling. When the two sides of an account are equal, it is ruled and does not appear in the Trial Balance.

¶ 12. *On the sixth blue line write A. R. Jennings,* the next account; in the first or debit column write $54.25, the amount on the debit side of his account. The ruling indicates that the debit and credit sides of the account above the lines are equal. Place "5," the page of the account in the ledger, in the column to the left of the name of the account.

¶ 13. *On the seventh blue line write Central Hotel,* the next account; in the debit column write $12.35, which is the balance of the account. Write "6," the page of the account in the ledger, to the left of the name of the account.

¶ 14. *On the eighth blue line write Hazen & Lotspeich;* the ninth, M. A. Johnson; the tenth, Imperial Hotel; the eleventh, Lake View Creamery; the twelfth, A. C. Williams; thirteenth, R. G. Mathews; fourteenth, J. Allen Smith & Co.; fifteenth, C. L. Loyd; sixteenth, J. C. Wilson; seventeenth, Donaldson Bros. Write the balance of each account in the debit or credit column, as indicated by the account in the ledger. Write the page of each account in the ledger in the column to the left of the name.

¶ 15. *Add each Side of the Trial Balance,* and write the total in small pencil figures; the total of the two columns should be equal. If they are not, begin with ¶ 2, given above, and check the work for errors.

¶ 16. *Rule the Trial Balance* with single and double red lines, and write the footings in black ink. See illustration No. 17.

You can not understand the foregoing with one reading; each paragraph must be studied and understood.

Trial Balance, Jan 31, 191

1	W. H. Goodwin		2000
2	Cash	1547 50	
3	Merchandise	1276 70	657 05
4	Expense	80	
5	Borches & Co.		96
5	A. R. Jennings	54 25	
6	Central Hotel	12 35	
6	Hazen & Lotspeich		103 60
6	M. A. Johnson	17 40	
7	Imperial Hotel	129 45	
7	Lake View Creamery		28
7	A. C. Williams	42 30	
8	R. G. Mathews	24 05	
8	J. Allen Smith & Co.		197 10
8	C. L. Loyd	28 25	
9	J. C. Wilson	42 25	
9	Donaldson Bros.		172 75
		3 2 5 4 5 0	3 2 5 4 5 0
		3254 50	3254 50

Illustration No. 17.

§ 68. Important Points about the Trial Balance.

FIRST: The result is the same, whether the total footings of both sides or the difference of each account in the ledger is used.

SECOND: It is customary to use the balance of Personal accounts and Cash, and the total of both sides of all other accounts.

THIRD: The first or debit column of the Trial Balance represents the debit side of the ledger; and the second, or credit, column of the Trial Balance represents the credit side of the ledger.

FOURTH: Accounts that balance are not entered on the Trial Balance because the total of each side is the same, and if entered, they would only add to the total of the Trial Balance.

FIFTH: The Trial Balance is not made until after all of the amounts in the journal have been posted and checked.

SIXTH: The debit and credit columns of the Trial Balance are equal because the amounts debited and credited in each transaction are equal.

SEVENTH: The Trial Balance proves that each debit amount has been posted to the debit side of the ledger, and each credit amount posted to the credit side of the ledger; but it does not show errors in posting to the wrong account. These can be detected only by checking.

EIGHTH: When the Trial Balance does not balance, the error may be (a) in posting; (b) adding the accounts in the ledger; (c) taking the difference of Personal accounts; (d) transferring the amounts from the ledger to the Trial Balance; (e) footing the Trial Balance.

NINTH: The Trial Balance shows the condition of each account in the ledger, and is really a condensed form of the ledger.

TENTH: The practical bookkeeper takes a Trial Balance at least once each month.

USE OF RED INK IN BOOKKEEPING.

§ 69. **The Use of Red Ink in Bookkeeping** is entirely optional with the bookkeeper, or the one who has charge of the office work. It is the best practice to use it, as it not only adds to the appearance of the books, but also has a meaning to the auditor. The following rules govern the use of red ink in bookkeeping, and the student is advised to use it accordingly.

§ 70. **Rule 1. Use Red Ink for all Ruling.** This applies to the ruling in the books of original entry, the ledger, the Trial Balance, the Financial, and Profit and Loss statements.

§ 71. **Rule 2. When an Account is to be Balanced,** ruled and the balance brought down, or carried to a new page, use red ink for the *amount* of the balance, the *date*, the *page* to which the balance is transferred, and the word "*Balance*" in the explanation column. Black ink is used to enter them in the new location.

§ 72. **Rule 3. When an Amount is Written in the Ledger,** without being posted from some book of original entry, use red ink for all the facts concerning the entry; these are the *amount*, the *explanation*, and the *date*. This applies to the first time the entry is made. The same amount must appear on the opposite side in some other account, in order to keep the ledger in balance; black ink is used in the second entry. This rule applies especially to the closing of the ledger by the *red ink* method, as explained later.

RULING.

§ 73. **Ruled Lines in Bookkeeping** indicate that all amounts above the line balance the other amounts on the opposite side. There are two forms used: One a single red line under the dollars and cents column on each side; the other a single red line under the dollars and cents column on each side, and double red lines on the next blue line below and across all columns except those for the explanation.

¶ 1. *Position of the Rule.* The student will note the following relative to the correct position of the rule:

Lay the rule on the paper, with the brass edge up and toward the front, just below the blue line on which the single red line is to be drawn. Hold the rule in position with the left hand. Rule the single line with the right hand, always moving from left to right, letting the pen glide along the brass edge of the rule. When the single line is ruled, move the rule down one line and rule the double line. By changing the angle of the pen, both double lines can be drawn without moving the rule. If you lay the brass edge next to the paper, the ink will flow under it and blot your book. It is very difficult to draw neat lines with a rule that has no brass edge. With a little practice, the student can soon learn to make perfect lines with the rule in position as described.

¶ 2. *Single Red Lines are used* when one or more amounts on one side balance one or more amounts on the other side. This applies to Personal accounts, Notes Receivable and Notes Payable, where one or more payments balance one or more charges or credits. If either or both sides have more than one amount, they are added and the total entered in small pencil figures. Unless the amounts are added, and the total entered, the bookkeeper might rule an account that did not balance. When possible, the single lines should be ruled on the same blue line on each side.

¶ 3. *Single and Double Red Lines are used* when the difference has been entered on the smaller side, to make the account balance, or when there are a number of debits and credits, no one or more of which balance one or more on the other side. When these are used, the total of each side is entered in black ink between the single and double lines. As explained, the single line is ruled across the money columns only, and double lines across all except the explanation columns. Always rule the single and double lines on the same blue line on each side, no matter if there is only one entry on one side, and a number on the other side.

FISCAL PERIOD.

§ 74. **The Object of all Investments** in business is for profit, that is, increase in the value of the property invested. Since this is the object, it is evident that every person who invests property in a business enterprise, will want to know the condition of the business at least once each year, and to learn this, will require the bookkeeper to make a statement showing the profits or losses for the period. The time that elapses between the beginning of the business and the first statement of the business, or between the last statement and the present one, is the "Fiscal Period." This may be one year or any fraction of a year, depending upon the nature of the business, and the wishes of the investors. The end of a fiscal period is sometimes called the "Closing time" because at that time the books are closed. The current fiscal period is the time that has elapsed since the beginning of the business, or the end of the last fiscal period. To illustrate: A. L. Jones invests $2,000.00 in the grocery business, January 1, 1911. June 30th of the same year, he wishes to know the condition of the business, and requires his bookkeeper to make a statement of the business. At that time the current fiscal period is the time between January 1st and June 30th. At the close of December 31, 1911, he wishes to know the condition of the business, and requires the bookkeeper to make another statement. At that time the current fiscal period is the time between June 30th and December 31st, and the previous fiscal period is the one from January 1st to June 30th.

At the close of each current fiscal period, it is necessary to "Take Stock," that is, ascertain the present value of salable merchandise on hand, as this is one of the principal resources or assets of the business. As this requires considerable time and trouble, it is one of the principal reasons why business men do not require a statement of the business more than once or twice each year.

INVENTORY.

§ 75. **A List** of (a) the property on hand, (b) amounts due the business for services rendered but not entered on the books, or (c) for obligations owed by the business or for services received but not paid for, is an inventory. The total value of the property is also called an inventory. In every mercantile or trading business, property is purchased for two distinct purposes: one, for sale; and the other for use in the business. The value of property purchased for sale will not change, but the value of property purchased for use in the business, will decrease on account of its use. An account is kept with property purchased for use in the business, and this account will show the cost value, which is the present value if there is no depreciation. The account or accounts kept with property purchased for sale will not show the cost value of goods on hand, because the property is sold at a greater price than it cost. For this reason it is necessary to go through the stock and make a list of all salable goods on hand at the close of each fiscal period.

Accounts may be kept with each kind of property purchased for sale, in such a manner that the difference of each account will show the present value of the goods on hand. However, the results are seldom correct because goods are stolen, mistakes made in delivery and never reported, articles destroyed by clerks in preparing them for sale and never reported, and various other reasons. For these reasons it is usually necessary to go through the stock and prove the correctness of these accounts when kept. The keeping of these accounts is very expensive, and with a few exceptions the business men depend upon the "stock taking" at the close of the fiscal period for the value of the goods on hand.

Goods in stock are always estimated at the cost value, which is the invoice cost, plus the freight and drayage charges for delivering the goods in the store room. The trading profit, that is, the profit made by buying and selling goods, is made by the sales and not by the increase in the cost of the articles. For this reason it is always best to use the cost price, even though the market price may be in advance of this. If the market price has advanced, the selling price will advance, and at the close of the next fiscal period the profit will be shown. The only exception to this rule is when a change is being made in the ownership of the business. If one of those interested in the business is retiring,

it is quite evident that he would want the benefit of any profit that was going to be made on account of having secured goods at reduced prices. If new capital is being admitted, those interested in the business will want the benefit of the profit that was going to be made on the goods that had been purchased at less than the present market value. An inventory represents either a resource (a and b), or a liability (c).

§ 76. **Resource Inventory.** If the list represents property on hand, or the cost value of property due the business, but not entered, it is a resource inventory. Resource inventories consist

Inventory, January 31, 191

73 lbs.	Gran. Sugar (per 100#)	$3 40	2 48
196 "	Brown Sugar (per 100#)	3 20	6 27
1 doz.	Ivory Soap	35	35
3 "	Blacking	30	90
46 lbs.	Arbuckle Coffee	10	4 60
13 "	Tea	25	3 25
38 gal.	Coal Oil	09	3 42
646 lbs.	Bacon	10	64 60
493 "	Ham	10	49 30
1388 "	Shoulder	06	83 28
119 "	Lard	10	11 90
24 doz	Canned Tomatoes	65	15 60
35 gal.	Syrup	25	8 75
8 bu	Irish Potatoes	80	6 40
10 "	Sweet Potatoes	60	6
127 lbs	Trent Tobacco	35	44 45
42 "	Smoking Tobacco	30	12 60
3863	Daniel Boone Cigars (per 1000)	33	127 48
1896	Key West Cigars	16	30 34
23 brls.	Roller King Flour	3 25	74 75
24 "	White Lily Flour	3 85	92 40
36 bu.	Meal	50	18
80 lbs.	Creamery Butter	28	22 40
98 doz.	Eggs	16	15 68
3 bu.	Beans	1	3 00
9261 lbs.	Hay (per ton of 2000#)	17 65	81 73
73 bu.	Corn	40	29 20
78 "	Oats	31½	24 57
5963 lbs.	Bran (per 1000#)	6 50	38 76
	Value of merchandise on hand		882 46

Illustration No. 18.

of: (a) salable merchandise on hand, (a) stamps on hand, (a) advertising matter on hand; (b) accrued interest on Notes Receivable, the interest on which is not due until the notes are due, (b) accrued interest on customers' past due accounts, (b) amounts due us for services rendered, but not charged.

§ 77. **Liability Inventory.** If the list represents obligations due others for services rendered by them, it is a liability inventory. Liability Inventories consist of, accrued interest on notes payable, the interest not being due until the notes are due; accrued interest on creditors' past due accounts; rent unpaid, pay roll, and any other obligations that have not been entered on the books.

QUESTIONS.

1. Define the Trial Balance. (§ 66.)
2. How often is a Trial Balance taken in business? (§ 68, ¶10.)
3. Name the seven important steps necessary for taking a Trial Balance. (§ 66, ¶¶ 1—7.)
4. Why is it best to use a hard pencil and keep it sharp when footing the accounts in the ledger? (§ 67, ¶ 2.)
5. Why is it best to make small figures in footing accounts in the ledger? (§ 67, ¶ 3.)
6. How are the accounts listed on the Trial Balance? (§ 66, ¶5.)
7. How does the bookkeeper know that his Trial Balance balances? (§ 67, ¶ 15.)
8. How is the Trial Balance ruled? (§ 67, ¶ 16.)
9. Name six of the important points about taking a Trial Balance. (§ 68.)
10. Is it necessary for the bookkeeper to use red ink? (§ 69.)
11. Give the three rules for the use of red ink. (§§ 70—72.)
12. What do ruled lines indicate to the bookkeeper? (§ 73.)
13. What is the correct position of the rule when ruling? (§ 73, ¶1.)
14. Why is it not best to rule with the brass edge of the ruler on the paper? (§ 73, ¶ 1.)
15. What two forms are usually used? (§ 73, ¶¶ 2 and 3.)
16. What is a fiscal period? (§ 74.)
17. How much time may it cover? (§ 74.)
18. What do you understand by taking stock? (§ 74.)
19. Why is it necessary to take stock at the end of a fiscal period? (§ 74.)
20. Define an inventory and name the three kinds of property that may be represented. (§ 75.)
21. What is the difference between property purchased for sale and that purchased for use in the business? (§ 75.)
22. Why does the latter decrease in value? (§ 75.)
23. Why is it not practical to keep special accounts with each kind of goods bought and sold so that at any time the value of the goods on hand may be ascertained by taking the difference of each account? (§ 75.)
24. At what price are goods in stock usually inventoried? (§ 75.)
25. Why is it necessary to take into consideration the amount paid for freight on goods purchased in estimating the value of goods on hand? (§ 75.)
26. Distinguish between a resource inventory and a liability inventory. (§ § 76 and 77.)

STATEMENT OF THE BUSINESS.

§ 78. **At the Close of each Fiscal Period,** the bookkeeper is required to make a statement showing the present condition of the business. This must show all the resources, liabilities, present capital, profits, losses, and the net gain or loss. The facts are obtained from the inventory and the Trial Balance. It is customary to make two distinct statements—the Financial statement, and the Profit and Loss statement. The Financial statement is made first and proved to be correct by the Profit and Loss statement.

§ 79. Financial Statement. This shows a list of the resources, liabilities, and the present capital. These facts are shown in the order mentioned.

¶ 1. *The Resources,* or assets, are listed in the order of their availability, which is as follows: Cash, Merchandise Inventory (salable goods on hand), Notes Receivable, Personal accounts, Fixed Investments, and Sundry Resource Inventories. If there are a number of Personal accounts it is best to enter the total on the Financial statement, and show the amount due from each customer on a separate statement. The total of the various resource accounts is the present capital, if there are no outstanding obligations.

¶ 2. *The Liabilities* (outstanding obligations) are listed in the following order: Notes Payable, Accounts Payable, and Sundry Liability Inventories. The total of these equals the total liabilities or outstanding obligations, which are to be paid by the business.

¶ 3. *The Present Capital* is the difference between the total liabilities and the total resources. It is quite evident that if the debts owed by the business are paid, the remaining property belonging to the business is the owner's interest in the business. If the present capital is more than the amount invested, or the capital of the owner at the beginning of the fiscal period, the difference is the profit; if it is less, the difference is a loss. The deduction is usually made at the close of the Financial statement, in order to compare the net profit or loss shown by this, with that shown by the Profit and Loss statement.

NOTE—If the owner has withdrawn any part of the capital during the fiscal period, the balance of his Capital account before the books are closed represents his interest in the business. The difference between this and the present capital as shown by the Financial statement is the profit or loss.

§ 80. Profit and Loss Statement. This shows the various profits, losses, and the net profit or loss for the current fiscal period. These are listed in the following order: Gross Trading Profit, or profit on merchandise; other profits as shown by the credit balance of profit accounts; the Operating Expense, as shown by the Expense account or various accounts with expense; other losses, as shown by the debit balance of loss accounts.

¶ 1. *Gross Trading Profit.* This is the profit made by buying and selling merchandise. The amount is ascertained by the Trading statement, which may be made a part of the Profit and Loss statement, or as a separate statement. It shows the returns from the sales of merchandise, the cost of merchandise for the current fiscal period, the cost of merchandise on hand at the beginning of the fiscal period, the cost of merchandise on hand at the end of the fiscal period, the net cost of goods sold, and the net profit on sales of merchandise. Unless there are a number of accounts represented on the Trading statement, it is best to make it a part of the Profit and Loss statement.

¶ 2. *Other Profits.* These are represented by the credit balances of profit accounts, and may be, Interest, Discount, Commission, Shipments, Income from Real Estate, etc. (If the debit side of these accounts are the larger, they are listed with the losses.)

¶ 3. *Operating Expense.* This is represented by one Expense account, or the various accounts with expense. The total is the operating expense, or the cost of conducting the business for the fiscal period.

¶ 4. *Other Losses.* These are represented by the debit balances of loss accounts, and may be, Interest, Discount, Commission, Shipments, etc. (If any of these accounts show a credit balance, they are listed with the profits.)

¶ 5. *The Total Profit* is the gross trading profit (¶ 1) plus the other profits (¶ 2). The total loss is the operating expense (¶ 3) plus the other losses (¶ 4). The net profit or loss is the difference between the total profits and losses, or losses and profits. This net profit, or loss, must be the same as the difference between the present capital, and the capital at the beginning of the fiscal period.

No facts shown by either the Financial, Trading, or Profit and Loss statements can be accepted as correct until the final results have been proved.

§ 81. **Instructions for making the Financial, and Profit and Loss Statements, January 31st.** As explained in § 78, these statements are made from the Trial Balance and Inventory. The Trial Balance, illustration No. 17, shows the condition of the ledger at the close of the fiscal period (January 31st); and the Inventory, illustration No. 18, the value of merchandise on hand. By referring to the Trial Balance, illustration No. 17, the student will note the following:

The first account is the investment, and is neither a resource nor a liability. The second, Cash, shows the money on hand, which is a resource. The third, Merchandise, shows the value of goods bought and sold, but not on hand; hence the inventory, which does show the value of the goods on hand, must be used in listing the resources. The next, Expense, is a loss, because it shows money paid for conducting the business. All the remaining accounts are with persons. Those in which the debit side is larger show a resource, and those in which the credit side is larger, a liability.

Financial Statement, W. H. Goodwin, Jan 31, 191

Resources			
Cash on hand		1547 50	
Mdse Inventory Jan. 31.		882 46	
Personal Accounts:			
A. R. Jennings	54.25		
Central Hotel	12.35		
M. A. Johnson	17.40		
Imperial Hotel	129.45		
A. C. Williams	42.30		
R. G. Mathews	24.05		
C. L. Loyd	28.25		
J. C. Wilson	42.25	350 30	
Total Resources			2780 26
Liabilities			
Personal Accounts:			
Borches & Co	96.00		
Hazen & Lotspeich	103.60		
Lake View Creamery	28.00		
J. Allen Smith & Co.	197.10		
Donaldson Bros.	172.75	597 45	
Total Liabilities			597 45
Present Net Capital			2182 81
W. H. Goodwin investment			2000 00
Net Gain			182 81

Illustration No. 19.

¶ 1. *Financial Statement.* On the blue line at the top of a sheet of journal paper, write "Financial Statement, W. H. Goodwin, January 31, 191.." On the first blue line below the heavy line, in the center, write "Resources." Next list the resources in the following order: Cash, as shown on the Trial Balance, Merchandise as shown on the inventory, and Personal acco unts in which the debit side is the larger. Enter the amounts as shown in illustration No. 19. The total will be the value of all the resources, and is extended in the second column on the line below. At the left of the total, write "Total Resources." (See illustration No. 19.) Check each account on the Trial Balance as the balance is transferred to the statement.

In the center of the page, and below the total resources, write "Liabilities." On the next blue line, and at the left, write "Personal Accounts;" on the blue lines below write the names of the five Personal accounts that show a credit balance, in the same order as they appear on the Trial Balance. See second part of illustration No. 19 for arrangement. Check the accounts on the Trial Balance as the entries are made. The total of these five amounts is the amount of Mr. Goodwin's indebtedness, and is extended into the second column, on the line below. At the left of the total, write "Total Liabilities." The difference between the total resources and the total liabilities must be the Present Net Capital. The difference between this and the investment is the net gain. See illustration No. 19 for form and method of ruling.

¶ 2. *Profit and Loss Statement.* At the top of another sheet of journal paper, or on the lower half of the sheet used, write "Profit and Loss Statement, W. H. Goodwin, January 31, 191.." On the first blue line below the red line, in the center of the page, write "Gains." Since one of the principal sources of profit is the Merchandise account, and as the profit on this is shown by the Trading statement, make this statement first. As explained, this can be made on a separate sheet of paper, or on the same sheet with the Profit and Loss statement. Since at this time, this is the only profit, it is better to make the two statements together. Below the word "Gains," and at the left, write "Merchandise Sales;" and in the first column, the total credit side of the Merchandise account, which is the sales for the period. Below this write "Merchandise Purchases;" and just to the left of the first money column, write the debit side of the Merchandise account, which is the total purchases to date. On the next blue line, write "Less Inventory, January 31," and place the amount of the inventory under the purchases. Subtract the two and extend the difference into the first money

Profit & Loss Statement, W. H. Goodwin, Jan. 31, 191

Gains			
Mdse. Sales		657 05	
Mdse. Purchases	1276.70		
Less Inventory, Jan. 31,-	882.46		
Net cost of merchandise sold		394 24	
Profit on merchandise sold			262 81
Losses			
Expense			80
Net Gain			182 81

Illustration No. 20.

column on the line below. At the left of the amount write, "Net cost of Merchandise sold." If $1,276.70 was paid for merchandise, and there is yet on hand $882.46, according to the inventory, the cost of goods sold must be the difference; which, in this case, is $394.24. The difference between the amount received for goods sold and the cost of the goods sold, must be the gross trading profit, or the profit made by buying the goods at one price, and selling them at a greater. Subtract the cost of goods sold from the total sales, and enter the amount in the second column on the line below. At the left, and on the same line with this amount, write "Profit on Merchandise sold." There is no other account showing a profit.

On a blue line below, and in the center of the page, write "Losses." On a blue line below this, and to the left, write "Expense," and extend the amount into the second money column. The gross trading profit, less the expense of conducting the business, must be the net profit. Subtract the amount of the expense from the gross trading profit, and place the amount in the second column, underneath the last entry. To the left write, "Net Gain." This is $182.81. See illustrations Nos. 19 and 20 for arrangement and form of ruling. By referring to the Financial statement, the student will note that the difference between the amount invested and the Present Net Capital is the same as the difference between the gains and losses, which is proof that the work is correct. See illustration No. 20.

§ 82. **The Balance Sheet.** This is another form of the Financial, and Profit and Loss statements, one which is very popular with bookkeepers. It is shown here more for comparison, as it is better practice to use the Financial, and Profit and Loss statements, because more detailed results can be shown by the separate statements. The Balance Sheet is ruled with six money columns; two for the debits and credits of the Trial Balance, two for the Profit and Loss statement, two for the Financial statement. The Profit and Loss statement is given first on account of the ruling at the bottom. The Trading statement is shown separate, and below the final ruling on the Balance Sheet. If there are a number of accounts involved, it is better to make this statement on a separate sheet of paper. The Financial statement is shown in the last two columns. Resource inventories are entered in the Resources column, and Liability inventories in the Liabilities column, each with red ink. The final results are shown at the bottom. See illustration No. 21.

¶1. *Instructions for making a Balance Sheet.* Write the names of the accounts as they appear on the Trial Balance at the left, and place the debits and credits in the two columns provided for them. Write the Inventory of Merchandise in red ink in the Resources column. Rule the Trial Balance with single and double lines, and place the totals between the two. Extend the losses into the Losses column, the profits into the Profits column, the resources into the Resources column, and the liabilities into the Liabilities column. The Trading statement is made at the bottom of the Balance Sheet, or on a separate sheet of paper. Foot all the columns on the line with the footings of the Trial Balance, and draw a single red line all the way across; this is a continuation of the single red line under the Trial Balance. The difference between the Profit and Loss columns is entered in red ink, and these columns footed and ruled. The net gain is added to the investment, and the total of the two, which is the present net capital, is entered with red ink, in the Liability column, because the difference between the resources and liabilities is the present net capital. These columns are ruled and the footings entered. Illustration No. 21 shows the form of Balance Sheet for January 31st.

NOTE.—The term "Balance Sheet" is used here because this form is known by that name by many teachers and bookkeepers. Accountants do not use a name to designate forms and usually refer to the Financial Statement as the Balance Sheet.

§ 83. Important Points about the Financial, and Profit and Loss Statements.

FIRST: The Financial statement shows the resources, liabilities and present capital.

SECOND: The Resources, in a mercantile or trading business, usually consist of cash; merchandise, per inventory; debts due the business, represented by either notes or personal accounts; the value of property purchased for use in the business; debts due the business that do not appear on the books.

(Continued on page 62.)

Balance Sheet, January 31, 191 .

L.F.	Names of Accounts	Trial Balance Debits	Trial Balance Credits	Profit and Loss Statement Losses	Profit and Loss Statement Profits	Financial Statement Resources	Financial Statement Liabilities
	W.H. Goodwin		2000				
	Cash	2306 75	759 25			1547 50	
	Mdse.	1276 70	657 05		* 262 81	882 46	
	Expense	80		80			
	Borches & Co.		96				96
	A.R. Jennings	54 25				54 25	
	Central Hotel	12 35				12 35	
	Hazen & Lotspeich		102 60				102 60
	M.A. Johnson	17 40				17 40	
	Imperial Hotel	129 45				129 45	
	Lake View Creamery		28				28
	A.C. Williams	42 30				42 30	
	R.G. Mathews	24 05				24 05	
	J. Allen Smith & Co.		197 10				197 10
	C.L. Loyd	28 25				28 25	
	J.C. Wilson	42 25				42 25	
	Donaldson Bros.		172 75				172 75
		4013 75	4013 75	80	262 81	2780 26	597 45
	W.H. Goodwin's Net Gain			182 81			
				262 81	262 81		
	W.H.G.'s Investment		2000				
	Net Gain added		182 81				
	W.H.G.'s Present Capital						2182 81
						2780 26	2780 26
*	Trading Statement						
	Mdse. sold		657 05				
	Mdse. purchased	1276 70					
	Less Inventory, Jan. 31	882 46	394 24				
	Profit on Mdse. sold		262 81				

Illustration No. 21.

To the student: You must understand the Statement form (§ 81) and the Balance Sheet form (§ 82) of the *statement of the business*. Unless you can make both, you do not understand either. We suggest that you make both in all the Part 1 work, including those required in the regular bookkeeping work and the supplementary exercises.

THIRD: The Liabilities consist of the obligations owed by the business as represented by written and verbal promises (Notes Payable and Accounts Payable).

FOURTH: The difference between the resources and liabilities is the present capital, or the owner's interest in the business.

FIFTH: The Profit in a trading business will consist of the gain on merchandise, as shown by the trading statement, and other gains shown by profit or loss accounts that have a credit balance.

SIXTH: The Trading statement is made up from all the accounts that affect the purchases and sales of merchandise, and the inventory of salable goods on hand.

SEVENTH: The gross trading profit and other gains, as shown by the credit side of profit or loss accounts, equal the total gain for the fiscal period.

EIGHTH: The Losses are represented by the Expense account or accounts, and the other losses shown by the debit balance of profit or loss accounts.

NINTH: The difference between the total gains and total losses is the net gain for the period. This, added to the net investment, is the present capital, and must be the same as the difference between the resources and liabilities on the Financial statement.

TENTH: No facts set forth in either statement can be accepted as correct until the results have been proved.

ELEVENTH: The statements are made up from the Trial Balance and Inventory or Inventories. Statements are made at the end of each fiscal period, which may be one year or a part of a year.

TWELFTH: The accounts on the Trial Balance should be checked as they are entered on the proper statement; when both statements have been completed, all the accounts on the Trial Balance will be checked.

QUESTIONS.

1. Why is it necessary for the bookkeeper to make a statement of the business at the close of the fiscal period? (§ 78.)
2. What two statements are usually made? (§ 78.)
3. Define the Financial statement. (§ 79.)
4. How are the assets arranged? (§ 79, ¶ 1.)
5. What do the total assets represent? (§ 79, ¶ 1.)
6. How are the liabilities arranged? (§ 79, ¶ 2.)
7. What do the total liabilities show? (§ 79, ¶ 2.)
8. How is the present capital ascertained? (§ 79, ¶ 3.)
9. What does the difference of the net capital at the beginning of the fiscal period and the present capital show? (§ 79, ¶ 3.)
10. Define the Profit and Loss statement. (§ 80.)
11. What must it show? (§ 80.)
12. What is meant by the gross trading profit? (§ 80, ¶ 1.)
13. What is the Trading statement? (§ 80, ¶ 1.)
14. What accounts are represented on it? (§ 80, ¶ 1.)
15. Is it a part of the Profit and Loss statement or separate? (§ 80, ¶ 1.)
16. What other profits may appear on the Profit and Loss statement? (§ 80, ¶ 2.)
17. What constitutes the total profits? (§ 80, ¶¶ 1 and 2.)
18. What are the operating expenses? (§ 80, ¶ 3.)
19. What other losses may occur? (§ 80, ¶ 4.)
20. How is the net gain ascertained? (§ 80, ¶ 5.)
21. How does the bookkeeper know that the net gain ascertained by the Profit and Loss statement is correct? (§ 80, ¶ 5.)
22. Why is it necessary for the two statements to prove? (§ 79, § 80.)
23. What is the difference between a Balance sheet and the Financial, and Profit and Loss statements? (§ 82.)
24. Which form is the best?
25. Name five of the important points about the Financial, and Profit and Loss statements. (§ 83.)

CLOSING THE LEDGER.

§ 84. **At the Close of the Fiscal Period,** after the Financial, and Profit and Loss statements have been made, and proved to be correct, those accounts in the ledger that represent profits or losses are closed. The balance of each is transferred to the Profit and Loss account. The difference of this account will show the same net gain or loss as is shown by the Profit and Loss statement. The difference of the Profit and Loss account is closed into the Investment account, and this account is closed, and the present capital brought down on the credit side. The amount of this is the same as that shown in the Financial statement. After the ledger has been closed, there will be no accounts open except those whose balance shows a resource or a liability, and the one showing the present capital. In other words, after the ledger is closed, there are no accounts open except those shown on the Financial statement.

¶ 1. There are two methods of closing the ledger: (a) One, by the use of red ink, and the other, (b) by a journal entry or entries. The red ink method will be used in this set. While it is better practice to use the journal method, yet the student should understand both.

§ 85. **Closing a Profit or Loss Account.** To close a profit or loss account is to transfer the balance to some other account. Since closing the ledger means to close the accounts used in making up the Profit and Loss statement, it is necessary to understand the method of closing an account, in order to close the ledger. There are two classes of accounts represented on the Profit and Loss statement: (a) profit or loss accounts that have an inventory; (b) profit or loss accounts that have no inventory. When red ink is used in closing the ledger, the following instructions give detailed information for closing each class of accounts.

§ 86. **To Close a Profit or Loss Account** that has an Inventory, proceed as follows:

¶ 1. *Enter the Resource Inventory* on the credit side with red ink, as follows: the date, the word "Inventory," and the amount. Make this entry on the next blue line below the last entry.

¶ 2. *Add the Amount of the Inventory* to the pencil figures above, and enter this total in small pencil figures just below the red ink entry.

¶ 3. *On the Smaller Side, enter, with Red Ink,* the difference between the two sides of the account after the inventory has been added, as follows: the *date*, the *name* of the account to which the balance is transferred, *page* of this account in the ledger, and the *amount.* Write this on the first blue line below the last entry.

If the account shows a loss, the inventory and loss will both appear on the credit side; if it shows a gain, the inventory will appear on the credit side, and the gain on the debit side.

¶ 4. *Add the Amount of the Balance* to the total of the side on which it is entered, and place this new total just beneath the red ink figures in small pencil figures. This total should be the same as the pencil figures on the other side of the account.

¶ 5. *Rule the Account as follows:* Draw a single red line across the dollars and cents columns on each side; this line is ruled on the blue line, just beneath the last entry on the side which has the larger number of entries, and is drawn on the same blue line on each side. On the next blue line below this, draw double red lines across all the columns except those for the explanation. Write, with black ink, in the amount columns between the single and double lines, the totals on each side, which will be the same as the last pencil figures. The amounts written in the money column on each side must be the same.

¶ 6. *Bring down the Inventory on the Opposite Side* in black ink, writing the date (day following the closing), the word "Inventory," and the amount; make this entry on the first blue line beneath the double ruled lines.

¶ 7. *Turn to the Account in the Ledger* to which the balance is to be transferred; and on the opposite side from which the red ink balance is entered, write in black ink, the date, the name of the account closed, page in the ledger and the amount of the difference between the two sides. (See illustrations Nos. 4 and 6.)

¶ 8. *If an Account has a Liability Inventory,* it is entered on the debit side, and the account is closed in exactly the same manner as described above. It is possible for an account to have both a resource and a liability inventory; it is also possible that the inventory and difference may both appear on the same side of the account. This will be explained when it is necessary for the student to close an account under these conditions.

§ **87. To Close a Profit or Loss Account** that does not have an Inventory:

¶ 1. *On the Smaller Side write, with Red Ink,* the date, name of the account to which the balance is to be transferred, and the balance (difference between the two sides). Rule the account with single and double lines, and enter the totals as explained in § 86, ¶ 5. See illustration No. 5.

¶ 2. *Turn to the Account into which the Balance is Closed,* and on the opposite side, in black ink, write the date, name of the account closed, page in the ledger, and the amount. See illustration No. 6.

§ **88. To Close a Resource, Liability, or Investment Account.** Resource or Liability accounts are not closed unless they balance by payment, or unless desired to close the account and bring the balance down on the same page or forward it to a new page.

¶ 1. *When a Resource or Liability Account Balances* by payment, rule with single or double red lines, as explained in "Ruling Personal Accounts," § 62. If more than one payment balances one or more debits or credits, foot with pencil to prove that they are equal.

¶ 2. *When a Resource or Liability Account is made to Balance,* enter the balance as follows: The *date,* the word "*balance,*" the *page* (if transferred to a new page) and the *amount.* Rule and foot the account as instructed, § 86, ¶ 5. Enter the balance below the ruled lines in black ink. If transferred to a new page, indicate (in the folio column) the page on which the account was located. If entered on the same page, place a check mark in the folio column in both the red and black ink entries.

¶ 3. *To close the Investment Account.* When the Profit and Loss account is closed, the Investment account is credited with the net gain for the current fiscal period, or debited with the net loss. The difference of the account will be the present capital, which is shown on the Financial statement. This is entered on the debit side with red ink as follows: the *date,* which is the last day of the current fiscal period; the words "*Present Capital*" and the *amount,* which must be the same as the present capital, as shown by the Financial statement. The account is ruled and footed as explained in § 86, ¶ 5. On the credit side, on the first blue line below the ruling, enter with black ink as follows: the *date,* which is the date of the next day, or the first day of the new fiscal period; the words "*Present Capital,*" and the *amount.* It is not necessary to write the number of the page in the page column, unless it is transferred to a new page. In this case, the new page is shown in the red ink entry, and the old page in the black ink entry.

§ **89. Instructions for Closing the Ledger, January 31st.** There are only four accounts to close: Merchandise into Profit and Loss; Expense into Profit and Loss; Profit and Loss into W. H. Goodwin; and W. H. Goodwin closed, and the balance brought down as "Present Capital." Close the Merchandise account, as instructed in § 86, and § 31, ¶ 10. See illustration No. 4. Close the Expense account as instructed in § 87, and § 32, ¶ 6. See illustration No. 5. Close the Profit and Loss account as instructed in § 33, ¶ 6. See illustration No. 6. Close W. H. Goodwin's account as instructed in § 88, ¶ 3, and § 34, ¶ 10. See illustration No. 7.

§ **90. Proof Sheet.** After all the accounts in the ledger that show a profit or loss have been closed, and the Profit and Loss account closed into the Investment account, and this account ruled and the Present Capital brought down, the bookkeeper should take a Trial Balance to prove that the work has been done correctly. See Illustration No. 22. This Trial Balance is usually called the "Proof Sheet" or "Balance of Balances." It contains all of the accounts that are open on the ledger. As no personal accounts have been closed, the totals used in making up the Financial statement can be substituted for the individual accounts. The Proof Sheet will always show the same accounts and same amounts as those in the Financial statement.

Proof Sheet, Jan. 31, 191

1	W. H. Goodwin			2182	81
2	Cash	1547	50		
3	Mdse	882	46		
✓	Personal Accounts, Customers	350	30		
✓	Personal Accounts, Creditors			597	45
		2780	26	2780	26
		2780	26	2780	26

Illustration No. 22.

§ 91. Important Points about Closing the Ledger.

FIRST: Closing the ledger means closing all those accounts that show a profit or a loss.

SECOND: The ledger may be closed by the red ink method, or a journal entry or entries.

THIRD: The accounts closed are those listed on the Profit and Loss statement.

FOURTH: All the accounts showing a profit or loss are closed into the Profit and Loss account.

FIFTH: If an account has a resource inventory, it is entered on the credit side in red ink, the balance entered on the smaller side in red ink, the account ruled and footed, the balance transferred to the Profit and Loss account, and the inventory brought down on the debit side in black ink.

SIXTH: If there is no inventory, the balance is entered in red ink on the smaller side, the account ruled and footed, and the balance transferred to the opposite side of the Profit and Loss account, in black ink.

SEVENTH: The Profit and Loss account is closed into the Investment account.

EIGHTH: The Investment account is closed by writing, on the debit side in red ink, the date of closing, "Present Capital," and the amount. The account is ruled, footed in black ink, and the Present Capital brought down on the credit side in black ink, under date of the day following the closing, which is the first day of the new fiscal period.

NINTH: The Proof Sheet is taken after the ledger has been closed, and is to prove that the closing has been done correctly.

TENTH: The accounts on the Proof Sheet will be the same as those on the Financial statement. The debits being the same as the resources, and the credits the same as the liabilities and the Present Capital.

QUESTIONS.

1. Why is the ledger closed? (§ 84.)
2. What classes of accounts are closed? (§§ 23—25.)
3. What are Profit accounts? Loss accounts? (§ 84.)
4. What is the Profit and Loss account? (§ 33.)
5. Into what account is the balance of the Profit and Loss account closed? (§ 84.)
6. After the ledger is closed what accounts remain open? (§ 84.)
7. How many methods are there of closing the ledger? (§ 84, ¶ 1.)
8. What is meant by closing a profit or loss account? (§ 85.)
9. What two classes of profit or loss accounts are closed? (§ 85.)
10. Name the seven steps for closing a Profit and Loss account that has an inventory. (§ 86, ¶¶ 1—7.)
11. If a Profit and Loss account has a liability inventory, where is it entered? (§ 86 ¶ 8.)
12. If a Profit and Loss account with a resource inventory shows a loss, on which side are the red ink entries made? (§ 86, ¶¶ 1 and 3.)
13. How is a Profit and Loss account that does not have an inventory closed? (§87.)
14. What is a Resource account? (§ 21.) A Liability account? (§ 22.)
15. Will a Resource or Liability account balance without closing? (§ 88.)
16. Describe the method of closing a Resource or Liability account when it balances without closing. (§ 88, ¶ 1.)
17. Describe the method when it is made to balance. (§ 88, ¶ 2.)
18. Describe the method of closing the Investment account. (§ 88, ¶ 3.)
19. How many accounts are closed January 31st? (§ 89.)
20. After the ledger is closed January 31st, what is Mr. Goodwin's present capital?
21. How do you know that this amount is correct? (§ 80, ¶ 5.)
22. What is the object of the proof sheet? (§ 90.)
23. What accounts are represented on it? (§ 90.)
24. Name six of the important points about closing the ledger. (§ 91.)
25. Which method of closing is used in this set? (§ 84, ¶ 1.)

§ 92. **Important Facts Learned from Recording the Transactions in January.** To the beginning student, all the facts set forth in the preceding work are more or less confusing because it is difficult for him to see the connection between the different transactions, accounts, illustrations, explanations, etc. For this reason we give below a brief outline of what he should have learned.

FIRST: No transactions are recorded in the books by the bookkeeper except those represented by business papers or the instructions of the owner.

SECOND: Transactions are recorded in the book of original entry as they occur and later transferred to the ledger, which is the book of complete entry.

THIRD: The journal is the only book of original entry in which all of the transactions can be recorded, and shows the account or accounts debited and credited.

FOURTH: There are four steps necessary to record a transaction in the journal: First, the date; second, the name of the account debited and the amount; third, the name of the account credited and the amount; fourth, the explanation or information for the auditor or any one who may have the authority to investigate the books.

FIFTH: Debit amounts are entered in the first column, and credit amounts in the second column, the name of the account being written on the same line with the amount, and at the left. The account to be debited is written on the first line below the date, and the account to be credited is written below, and about one-half inch to the right of that debited.

SIXTH: The explanation must be brief but clear, and is written on the line or lines just below the name of the account credited. If a business paper represents the transaction, the explanation must name the paper so that the auditor will know where to look for it.

SEVENTH: Transferring amounts from the journal to the proper account in the ledger is called posting.

EIGHTH: The posting is checked in order to detect errors. The checking is usually done the next day after the posting.

NINTH: The Trial Balance proves that all debit amounts have been posted to the debit side of the ledger, and all credit amounts to the credit side of the ledger, but does not prove that the amounts are all posted to the correct accounts. Errors of this kind can be discovered only by checking.

TENTH: The profit for any fiscal period can not be estimated until a complete list of all goods on hand has been made, and their value determined. This list is the inventory.

ELEVENTH: Goods are inventoried at the cost price, which is the price shown in the invoice, plus any freight or drayage charges necessary to get them to the storeroom.

TWELFTH: The Financial statement is a list of all the resources and liabilities, and the difference between these is the investor's present capital.

THIRTEENTH: The Resources consist of the cash, goods on hand (merchandise inventory), and Personal accounts (debts due the business). The Liabilities consist of the Personal accounts (debts owed by the business).

FOURTEENTH: The Profit and Loss statement shows the profit made by buying and selling merchandise, and the expense necessary to conduct the business. The difference between these two is the net gain.

FIFTEENTH: The correctness of the two statements is proved by the fact that the difference between the gains and losses, as shown on the Profit and Loss statement, is exactly the same as the difference between the investment and the present capital, as shown on the Financial statement.

SIXTEENTH: The ledger is closed in order that the gain may be credited to the Investment account.

SEVENTEENTH: Accounts showing a profit are closed into the credit side of the Profit and Loss account, and those showing a loss are closed into the debit side of this account; the difference of this account being closed into the Investment account.

EIGHTEENTH: The Investment account is closed and the balance brought down on the credit side in black ink under the next date after the closing.

NINETEENTH: Accounts are not closed unless there is some reason for it, and this is because they show a part of the profit or loss, or so that the balance may be brought down and thus avoid carrying the totals indefinitely.

TWENTIETH: After the ledger is closed, the amount credited to the investor equals the value of all other accounts on the ledger, that is, the difference between the resources and liabilities.

EXERCISES IN JOURNALIZING.

The student will journalize the transactions in the following exercises, and present the work to the teacher for approval. These are to be worked out on journal paper, that is, paper with the same ruling as the journal. After the journal has been approved, post the transactions to ledger sheets, allowing one-fourth of a page to each account, except Merchandise, and Cash, which should have one-half page each. Take a Trial Balance, make the Financial, and Profit and Loss statements, and close the ledger. References to the information concerning Trial Balance, statements, and ledger closing for January, will assist the student in doing this work. When the exercise is completed, leave it with the teacher for examination and approval.

EXERCISE No. 24. February 1st, W. H. Patterson invested $1,000.00 in cash in the retail grocery business (§ 34, ¶ 5); 2d, bought from Borches & Co., on account, merchandise per invoice of this date, $187.65 (§ 42); 3d, sold J. C. Mason, on account, 5 brls. flour, at $5.50; 50 lbs. lard at 13 cents (§ 43); 4th, bought from Davis Bros., for cash, merchandise per invoice of the 3d, $281.36 (§ 41); 5th, paid cash for 'phone rent, $10.00 (§ 46); 6th, bought of J. Allen Smith & Co., on account,

merchandise per invoice of this date, $221.97 (§ 42); 8th, paid Borches & Co., on account, $100.00 (§ 44); 9th, sold Walter Love, on account, 100 bu. corn at 65 cents; 200 lbs. lard at 13 cents (§ 43); 10th, bought from Kaiser Bros., on account, merchandise per invoice of this date, $111.85 (§ 42); 11th, sold Central Hotel, 20 brls. flour at $5.50; 5 dozen canned tomatoes at $1.50 (§ 43); 12th, paid Borches & Co., $87.65, in full of account (§ 44); 13th, sold J. C. Miller, on account, 500 lbs. meat at 11 cents; 200 lbs. lard at 13 cents; 6 brls. flour at $5.50 (§ 43); 15th, received cash, for sundry sales, $106.95 (§ 41); 16th, received $20.00 from Walter Love, on account (§ 45), 17th, paid clerk's salary for first half of the month, $25.00 (§ 46); 18th, bought from Donaldson Bros., on account, merchandise per invoice of this date, $221.85 (§ 42); 19th, sold Central Livery Co., on account, 100 bales, 9,648 lbs. hay at $18.50 per ton (see note); 100 bu. corn at 65 cents (§ 43); 20th, paid J. Allen Smith & Co., $150.00, on account (§44); 22d, received from Walter Love, 60 bu. potatoes at 60 cents, which is to be credited to his account (§ 45); 23d, paid Kaiser Bros., in full for invoice purchased on the 10th (§44); 24th, bought from the Union Milling Co., for cash, merchandise per invoice of this date, $186.98 (§ 41); 25th, received, for sundry cash sales, $125.25 (§ 41); 26th, sold Robert Love, on account, 100 bu. corn, at 65 cents; 5 brls. flour at $5.50; 10 bu. meal at 90 cents (§ 43); 27th, paid rent, $40.00, and clerk hire, $25.00 (§ 46). Cash balance $234.36. Inventory, value of goods on hand $720.62.

NOTE—When the price is per ton and the quantity expressed in pounds, multiply the given number of pounds by the price. The result divided by two is the value in dollars and cents. If the price is expressed in dollars and cents, point off five places; if in dollars, only three places.

REVIEW QUESTIONS.

The following questions are based on the facts set forth in (§ 92,) and arranged in the same order as the paragraphs in that section:

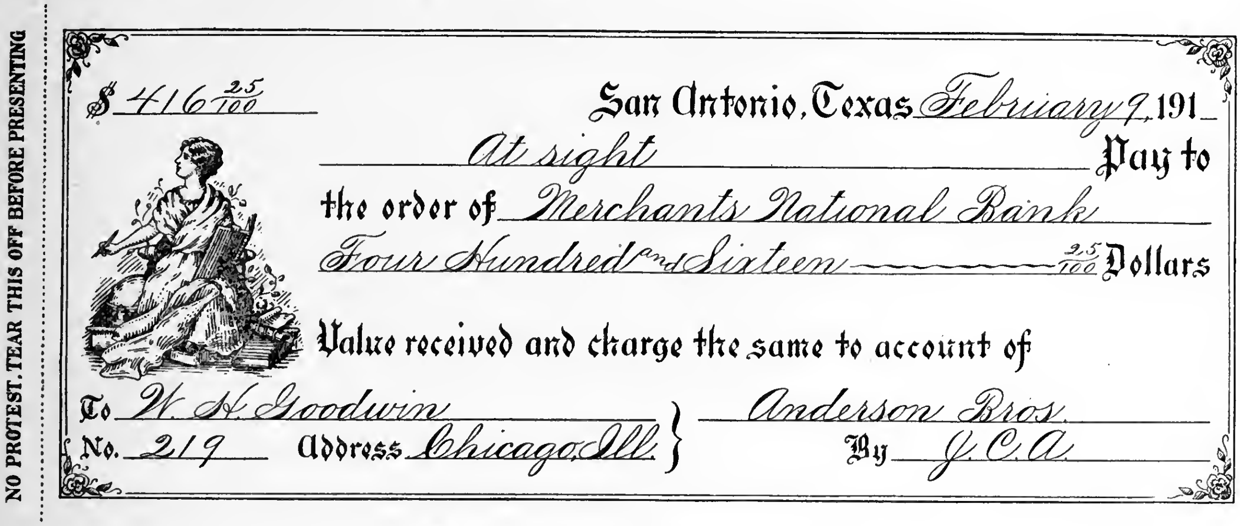
1. How does the bookkeeper know that a transaction has been made?
2. What books are used to record the transactions as they occur?
3. What is the name of the book of original entry used in January?
4. Name the four steps necessary to record a transaction in the journal.
5. Describe the position of the debit amounts, accounts debited, credit amounts and accounts credited.
6. Why is it necessary to write an explanation of the transaction?
7. What is posting?
8. Why is the posting checked?
9. What does a Trial Balance prove?
10. What is the list of goods on hand at the end of the fiscal period called?
11. At what price are goods in stock inventoried?
12. What does the Financial statement contain?
13. Of what do the resources consist, and which is the most available? Of what do the liabilities consist?
14. What does the Profit and Loss statement show?
15. How does the bookkeeper prove the correctness of the Profit and Loss, and Financial statements?
16. When is the ledger closed, and why?
17. What is the object of the Profit and Loss account?
18. What does the Investment account show after it has been closed?
19. When are accounts closed?
20. What accounts on the ledger equal the value of the Investment account after it is closed?

FEBRUARY.

Introducing Commercial Paper, transactions with the bank, the cash book and sales book, accounts with furniture and fixtures, notes receivable and notes payable.

§ 93. **Commercial Paper** is that class of written contracts or obligations which are used in the place of and for money. Those most used are drafts, notes and checks.

§ 94. **A Draft is a Written Order** from one person to another, asking him to pay a certain sum of money to a third party. A draft has three original parties: the drawer, the drawee and the payee. The one signing the draft is the drawer; the one who is asked to pay the amount is the drawee; and the one to whom the money is to be paid is the payee. The draft indicates that the drawee is indebted to the drawer, and that he (the drawer) wishes the amount paid to the payee. There are two kinds of drafts, known as *sight drafts* and *time drafts*.



NO PROTEST. TEAR THIS OFF BEFORE PRESENTING

$416 25/100 San Antonio, Texas February 9, 191

At sight Pay to

the order of Merchants National Bank

Four Hundred and Sixteen 25/100 Dollars

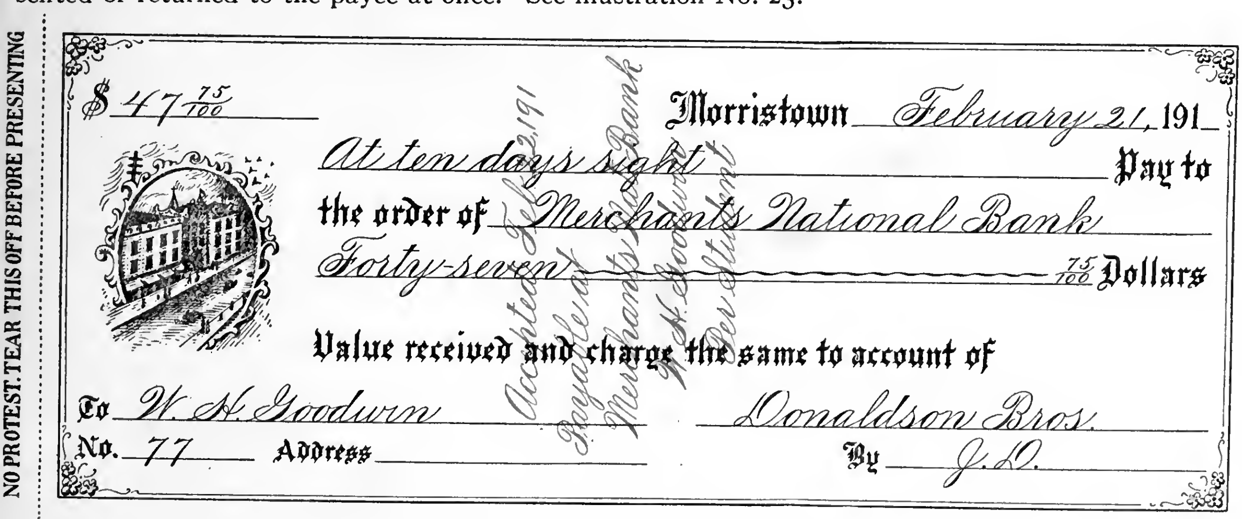
Value received and charge the same to account of

To W. H. Goodwin Anderson Bros.

No. 219 Address Chicago, Ill. By J. C. A.

Illustration No. 23. Sight Draft.

§ 95. **A Sight Draft** indicates that the amount owed the drawer is due or past due, and he wishes it paid at once. Unless days of grace are allowed, a sight draft must either be paid when presented or returned to the payee at once. See illustration No. 23.



NO PROTEST. TEAR THIS OFF BEFORE PRESENTING

$47 75/100 Morristown February 21, 191

At ten days sight Pay to

the order of Merchants National Bank

Forty-seven 75/100 Dollars

Value received and charge the same to account of

To W. H. Goodwin Donaldson Bros.

No. 77 Address By J. D.

Accepted Feb. 22, 191

Payable at Merchants Nat'l Bank

Merchants Bank

W. H. Goodwin

Per Student

Illustration No. 24. Time Draft—Acceptance.

§ 96. **A Time Draft** indicates that the amount owed the drawer is not due, or that he wishes to allow the drawee additional time to make payment. They are usually drawn a certain number of days after sight, or after date, and must be accepted or returned as soon as presented. Time drafts are accepted by writing, in red ink, "Accepted," the date and name of the drawee across the face. The name of the bank at which the draft is made payable may be indicated if desired. See illustration No. 24.

¶ 1. *An Accepted Time Draft* is sometimes called an "Acceptance." A. H. Miller's acceptance means a time draft drawn on A. H. Miller and accepted by him.

¶ 2. *No Protest.* The law requires that each person liable for the payment of a draft or other commercial paper, must be notified in case of nonpayment. The holder can waive this by using the "No Protest" notice shown on the left-hand end of illustrations Nos. 23 and 24.

§ 97. **Original Use of Drafts.** Drafts were originally used to avoid sending money to a distant place. A, in Chicago, owes B, in Louisville, a debt of $500; C, of Louisville, owes A, of Chicago, an equal amount. A writes an order (draft) on C, asking him to pay the amount to B, and sends the draft to B. B presents this to C, who pays it, retaining the draft as his receipt. With the numerous means now in use for transporting money with absolute safety, this use of drafts is about out of practice.

§ 98. **Present Use of Drafts.** Drafts are now used as a collecting medium only, in nearly all cases some bank or collection agency being the payee. In the above example, A would send his check to B, and expect C to pay his account in the same way. In case C did not do this, he (B) would draw a draft on him (C), in favor of some bank, either in Chicago or Louisville, and send it to the bank to collect. If A does not send his check, B would draw a draft on him in favor of some bank and send it to the bank for collection. See illustrations Nos. 23 and 24.

$42 30/100 February 16, 191

Fifteen days after date, for value received I promise to pay to the order of W. H. Goodwin

Forty-two 30/100 Dollars

at the Merchants National Bank, with interest at ___ %

No. 68 A. C. Williams

Due Mar. 3, 191

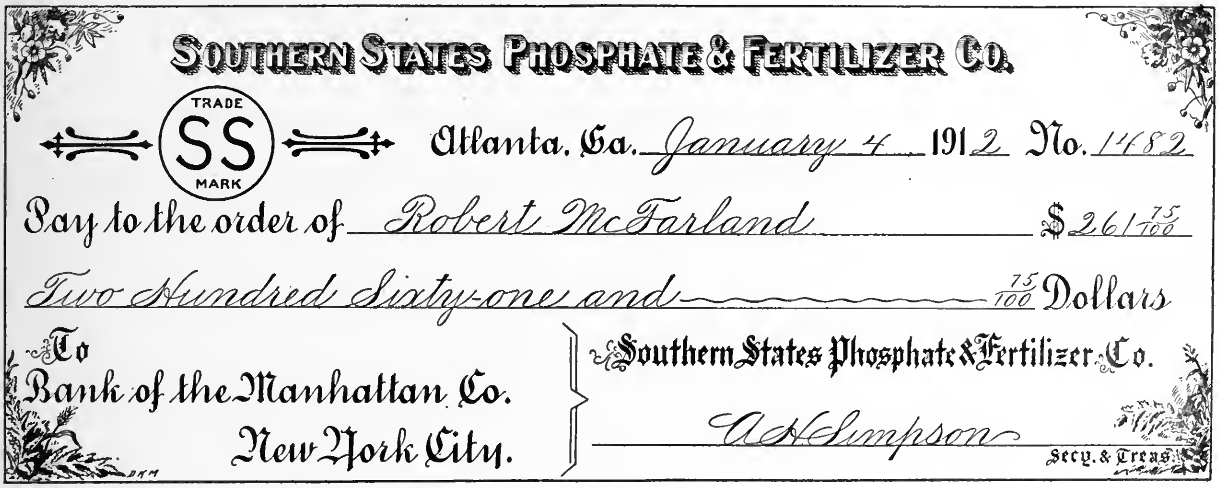
Illustration No. 25. Promissory Note.

§ 99. **A Note is a Written Promise to Pay** a fixed amount at a stated time, and signed by the person agreeing to pay it. A note has two original parties, the maker and the payee. The one who signs the note is the maker; the one in whose favor it is made, the payee. A note indicates that the maker is indebted to the payee, and has agreed to pay the amount stated, at the maturity of the note.

Notes are used in business as evidence of indebtedness, either as a loan or as an extension of time on some debt. Thus A, a merchant, sells B a quantity of goods to be paid for on the first of the following month. At this time B states he is not in a position to meet the obligation, but will give his note due in thirty days in payment of the amount. Should B have a good credit, A can transfer the note to his banker, receiving the cash, less interest to maturity. Thus B gets the desired time, A gets his money, and the bank gets the interest. See illustration No. 25.

¶ 1. *A Time Draft*, after it is accepted, is the same as a note because the person who accepts it agrees to pay the amount mentioned at a fixed time. See § 96, ¶ 1.

§ 100. Commercial Papers Regarded as Cash. As explained in § 27, cash is money or commercial paper that the bank will accept as money. Commercial papers of this class consist of personal checks, bank drafts, cashier's checks, express money orders, bank money orders, postal money orders, traveler's checks, etc. The most popular forms are illustrated in Nos. 26, 27, 28, and 29, and explained in ¶¶ 1—6 following.



SOUTHERN STATES PHOSPHATE & FERTILIZER CO.

TRADE SS MARK Atlanta, Ga. January 4 1912 No. 1482

Pay to the order of Robert McFarland $261 75/100

Two Hundred Sixty-one and 75/100 Dollars

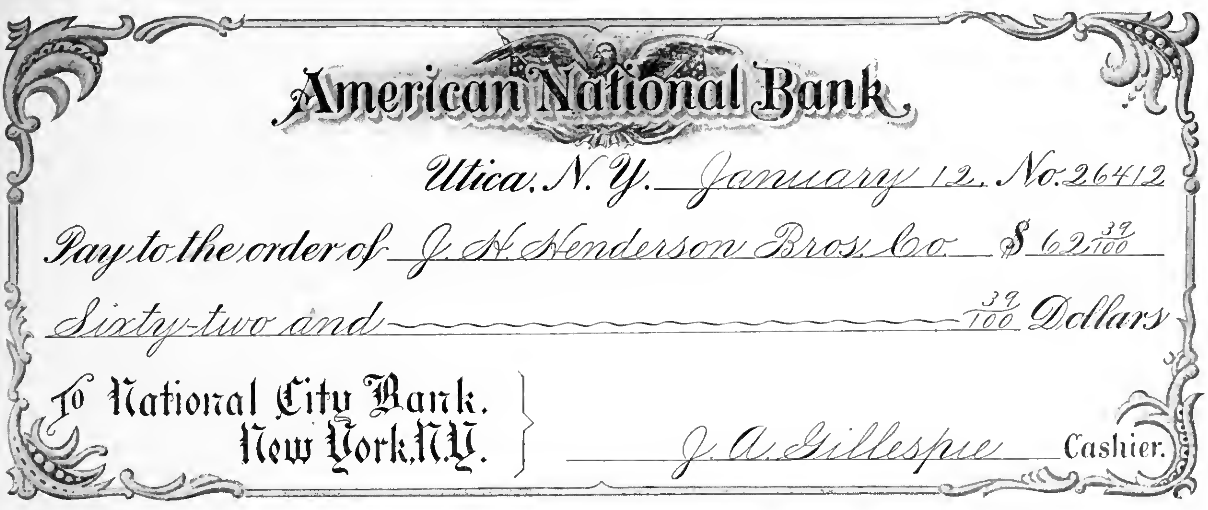
To Bank of the Manhattan Co. New York City.

Southern States Phosphate & Fertilizer Co.

A. H. Simpson Secy. & Treas.

Illustration No. 26. Specially arranged Personal Check.

¶ 1. *Personal Checks are Explained in* §104. The form of check used may be that supplied by the bank or any special form desired by the depositor. Many firms have very elaborate checks containing information concerning their business. Some of them are prepared with special space for information concerning the amount paid. These are known as "Voucher Checks." Illustrations Nos. 26 and 31 show two forms of personal checks.



American National Bank.

Utica, N. Y. January 12. No. 26412

Pay to the order of J. H. Henderson Bros. Co. $62 39/100

Sixty-two and 39/100 Dollars

To National City Bank. New York, N.Y.

J. A. Gillespie Cashier.

Illustration No. 27. Bank Draft.—"New York Exchange."

¶ 2. *Bank Draft.* A bank draft is a check drawn by one bank on another, and is evidence that the bank drawing the draft has money on deposit with the bank on which it is drawn. This is sometimes called "Exchange," especially if drawn on a bank in New York, Chicago, St. Louis, or some other large city. Illustration No. 27 shows the form of a bank draft. Read § 212.

CASHIER'S CHECK.

No. 86941 Springfield, Mass. January 16, 1912.

State National Bank

Pay to the order of A. M. Brakebill

One Hundred Sixty-two and 87/100 Dollars

$162 87/100

W. H. Woodward
CASHIER.

Illustration No. 28. Cashier's Check.

¶ 3. *Cashier's Check.* A cashier's check is one drawn on the bank and signed by the cashier. These are used in payment of collections made for persons who are not customers or for paying obligations of the bank. Illustration No. 28 shows the form of a cashier's check.

50 NOT PAYABLE FOR MORE THAN FIFTY DOLLARS 50

WHEN COUNTERSIGNED BY AGENT AT POINT OF ISSUE EXPRESS MONEY ORDER 11- 5684625

American Express Company

AGREES TO TRANSMIT AND

PAY TO THE ORDER OF Harold A. Waltham 48 | 50

THE SUM OF Forty-eight and 50/100 DOLLARS

C. H. Arnold AGENT

ISSUED AT

Worcester STATE OF Mass.

DATE January 9, 1912.

J. G. Fargo

Carl C. Davidson

Illustration No. 29. Express Money Order.

¶ 4. *Express Money Orders.* An express money order is a check issued by an express company. These are sold to persons who wish to send money to some person in another city. The leading express companies in the United States are the Adams, American, Wells Fargo, United States, and Southern. Illustration No. 29 shows an express money order issued by the American Express Company.

¶ 5. *Bank Money Orders.* A bank money order is used for the same purpose as the express money order, and is issued by the Bankers' Association, in competition with the express companies. They are sold to those who wish to send money to some person at a distance. The draft is drawn on a central bank in New York City, by a bank, which is a member of the association, and payment is guaranteed by a trust fund.

¶ 6. *Postal Money Orders.* These are issued by the United States postoffice, and are sold to persons who wish to send money to some person at a distance. A special form of application for money order is provided, and this must be filled out by the sender. The money order is then issued on the postmaster where the person to whom the money is sent gets his mail. When he receives his money order, he can present it to the postmaster and, when properly identified, receive the amount specified in the order.

§ **101. A Bank is a Business** organized for the purpose of dealing in cash and securities. The capital invested, together with the money deposited by depositors, is loaned to those engaged in other business enterprises. A bank is absolutely essential in every business community, and offers many advantages, some of which are as follows: a safe place for the keeping of money without cost to the owner; a means of paying obligations without handling money; a place where money can be borrowed, either on the note of the borrower or one owned by him; a means of collecting drafts or other evidence of indebtedness.

Money deposited in a bank may be withdrawn at any time, except under certain conditions, which are agreed to by the depositor. Money is withdrawn by means of a check, which may be made payable to the depositor or the order of some one designated by him. As the greater part of bank bookkeeping is keeping accounts with those who deposit money and withdraw it, it is necessary to provide the depositors with correct forms in order to facilitate the work. The two principal forms supplied by the bank are blank deposit tickets and checks.

§ **102. A Deposit Ticket,** or slip, as it is sometimes designated, is a printed form supplied by the bank to its depositors, on which the currency and checks deposited are listed. Unless the bank provided special forms, depositors would be disposed to use any kind of paper that might be available. The deposit tickets supplied by the bank are arranged in correct form, and in many cases provide a carbon copy to be retained by the depositor. Illustration No. 30 shows two deposit tickets, one with currency only, and one with checks and currency.

§ **103. Instructions for Making a Deposit.** The bank teller has many deposits to enter each day, and they should be arranged to facilitate his work. If the following instructions are observed, the teller can readily audit the deposit:

¶ 1. *Small Change is put up in Envelopes* provided by the bank. These are usually arranged to contain twenty-five pennies, twenty nickels, twenty dimes, twenty quarters, and twenty halves. Coin wrappers may be used in place of the envelopes. If not supplied by the bank, they can be purchased at any stationery store, and are made to contain an even number of dollars. The name of the depositor must be stamped or written on each package.

¶ 2. *Paper Money is Arranged in Regular Order*, the smaller denominations on top.

¶ 3. *Checks are Arranged in the Same Order as they are Listed;* the name of local banks and the address of out-of-town banks should be written at the left, and on the same line with the amount of the check.

¶ 4. *Each Check must be Endorsed.* The correct endorsement is, "Pay to the order of," the name of the bank, for deposit, the name of the firm, and the name of the person who made up the deposit. Thus, if the checks are deposited in the Merchants National Bank by W. H. Goodwin, and L. A. Owen made up the deposit, the endorsement is, "Pay to the order of Merchants National Bank for deposit, W. H. Goodwin, by L. A. Owen." Endorsements are written on the left hand end of the check, and on the back. Hold the check so that it can be read, turn it over by bringing the top towards you, and write the endorsement across the back, about one inch from the left-hand end. (§108.)

¶ 5. *The Deposit Ticket is Added*, and the total entered at the bottom, on the line with "Total"

printed on the ticket. If an adding machine is used in the office, and practically all up-to-date offices use them, the various amounts on the deposit ticket are added on the machine to insure correctness.

ALWAYS BRING YOUR PASS BOOK.

Merchants National Bank

Deposited by

W. H. Goodwin

By *Student*

Feb. 1, 191

LIST EACH CHECK SINGLY.	Doll's.	Cts.
Currency	*1500*	
Silver		
Checks		
"		
"		
"		
"		
"		
"		
"		
Total	*1500*	

ALWAYS BRING YOUR PASS BOOK.

Merchants National Bank

Deposited by

W. H. Goodwin

By *Student*

Feb. 13, 191

LIST EACH CHECK SINGLY.	Doll's.	Cts.
Currency	*125*	*00*
Silver	*13*	*50*
Checks *City National*	*132*	*65*
" *Chicago*	*118*	*60*
" *Denver*	*88*	*25*
" *Merchants' Natl.*	*100*	*00*
" *Third National*	*55*	*16*
" *New York*	*421*	*65*
" *Merchants Bank*	*19*	*85*
Total	*1074*	*66*

Illustration No. 30. Deposit Tickets, Feb. 1, and 13.

§ 104. **A Check is a Written Order by a Depositor** to his banker, designating to whom he wishes the banker to pay a part or all the money he has on deposit. No particular form is necessary, but it is best to use the special form prepared by the bank. These forms are designed so that the following facts may be set forth: The date, which is the month, day of the month and year; the number of the check; the name of the bank or banking firm on which it is drawn; the name of the person to whom the money is to be paid; the amount, which is written in figures in one location, and in writing in another; the signature, which is the name of the depositor, or his name and the name of the person authorized to sign it. Checks are usually bound in book form, each being provided with a stub, so that a permanent record may be kept of all the facts mentioned in the check.

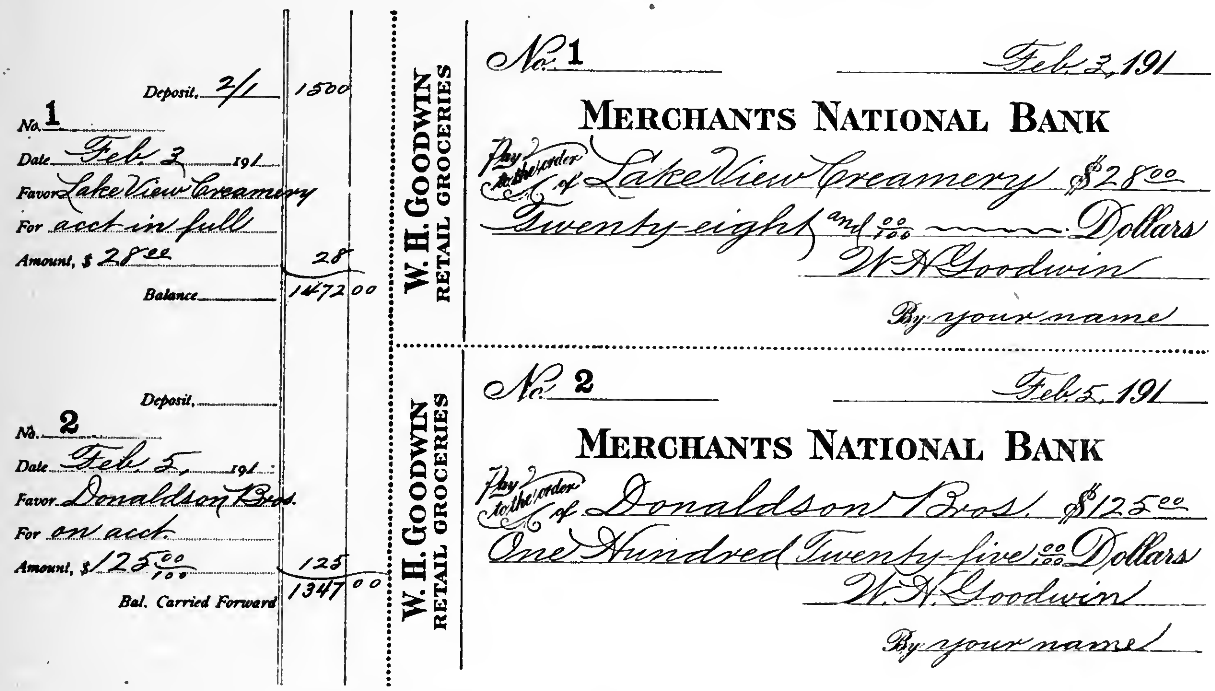
§ 105. **Instructions for Writing a Check.** The stub is the record of the check, and should be filled out first. While it is not necessary to do this, yet if omitted until after the check is written, it is likely to be forgotten. In filling out the check, there are five important points, as follows: The date; the person to whom it is issued; the amount in figures; the amount in writing; the signature of the depositor, which must be the same as that signed on the signature book or card, at the time the account is opened with the bank.

¶ 1. *The Date should be the Same* as that on which the check is written, though sometimes it is dated with a future date, in which case it is not payable until the date mentioned.

¶ 2. *The Name of the Person* to whom the check is to be paid, is preceded by the words, "Pay to the order of." This means that if he does not want to go to the bank and get the money, he can designate, by endorsement, to whom he does want it paid. If endorsed properly, the check may be transferred an indefinite number of times. It is the best policy to deposit all checks received at once, as the depositor might withdraw his money. It is also the best policy to pay obligations by giving your own check, and not by transferring checks of others.

¶ 3. *The Amount should be Written* in figures and in words, each in a different location. The figures and words should be arranged so that it is not possible to increase the amount by inserting other figures, or words. It is good policy to stamp the amount on the check. Special machines are prepared for this purpose. If the words and figures are different, the writing governs the amount.

¶ 4. *The Signature must be the Same* as that signed on the signature book or card. If the check is signed by any other person except the depositor, this person must sign the depositor's name and write his name underneath, to indicate that he has authority to sign the check.


Deposit 2/1 1500
No. 1
Date Feb. 3 191
Favor Lake View Creamery
For acct in full
Amount, $ 28.00 28
Balance 1472 00

W. H. GOODWIN
RETAIL GROCERIES

No. 1 Feb. 3 191
MERCHANTS NATIONAL BANK
Pay to the order of Lake View Creamery $28.00
Twenty-eight and 00/100 Dollars
W. H. Goodwin
By your name

Deposit
No. 2
Date Feb. 5 191
Favor Donaldson Bros.
For on acct.
Amount, $125 00/100 125
Bal. Carried Forward 1347 00

W. H. GOODWIN
RETAIL GROCERIES

No. 2 Feb. 5 191
MERCHANTS NATIONAL BANK
Pay to the order of Donaldson Bros. $125.00
One Hundred Twenty-five 00/100 Dollars
W. H. Goodwin
By your name

Illustration No. 31. First Page of Check Book.

§ 106. Opening an Account with the Bank. If a person has money and wishes to deposit it in a bank, it seems that he should have no trouble in doing this, as there are a number of banks in every community. However, banks are usually very careful about opening accounts with individuals or firms, and, as a general rule, require someone with whom the cashier or some other official is acquainted, to introduce the new depositor. When a depositor makes his first deposit, he is required to sign the signature book or card, giving his name just as he expects to sign all checks. This is necessary so that the paying teller may know that the checks signed with the depositor's name are not forgeries.

§ 107. Method of Keeping a Record of Transactions with the Bank. Transactions with the bank are represented by cash deposited, notes discounted and checks written. While the bank keeps a careful record of all the transactions with the depositors, yet each depositor should keep just as careful a record. A special book may be kept with the bank in which all deposits and checks are

entered. However, the best results are obtained by keeping the account on the check stub. As a general rule, the check book contains two or more checks to the page, each being provided with a stub. This stub is ruled with a money column at the right. The first deposit is entered at the top of the first stub, and in this column. When the first check is written, the amount is extended into the money column, and subtracted from the deposit. Each succeeding check is subtracted in the same manner, and each deposit added at the time it is made. Unless the depositor retains a carbon copy of the currency and checks deposited, they should be listed on the back of a stub which has been used. It is necessary to keep a copy of each deposit so that the auditor may know the amount of cash deposited in the bank. See illustration No. 30.

A complete record of the transactions with the bank may be kept on the back of the stub, instead of being recorded in the special ruled column on the front. This method will be explained later.

§ **107a. Reconciliation of the Bank Account.** At least once each month the pass book should be left at the bank to be balanced. When returned it will show the amount of each check paid by the bank and the depositor's balance in the bank. The canceled checks will be returned with the pass book. The bookkeeper should check these with the check stubs to see that no change has been made in the amount of any check. If all checks written have not been paid, the balance in the bank, as shown by the check stub, will be the same as the balance in the pass book, less the total of the unpaid checks. If all checks written have been paid, the two balances will be the same. The bookkeeper must prove his balance each time the pass book is written up.

§ **108. Endorsements.** An endorsement is any writing placed on the back of a check, note, or other business paper, with the intention of transferring the title, receipting for payment, or for the accommodation of some of the parties on the paper. The endorsement is written on the back and across the left-hand end of the paper, about one inch from the end. See illustration No. 32.

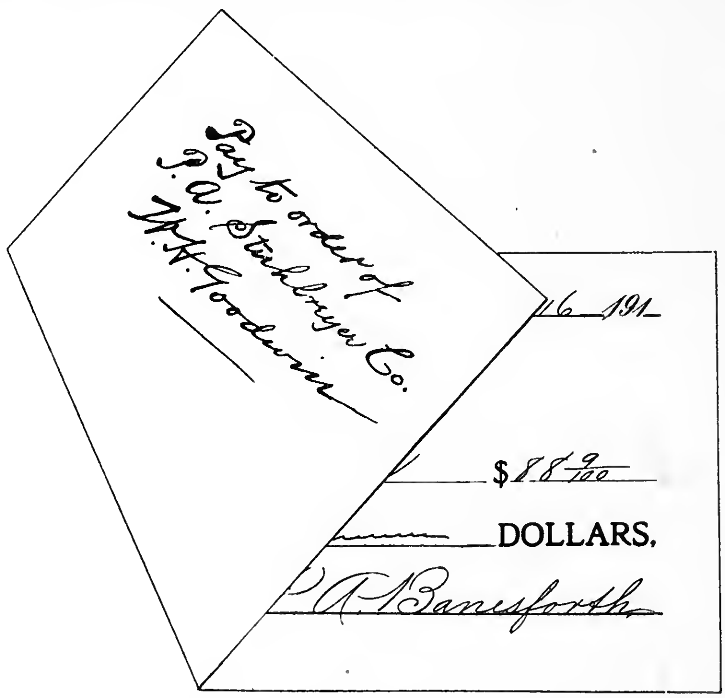


Illustration No. 32. Showing Position of Endorsement.

§ **109. Endorsement for Transfer.** There are a number of ways of writing the name of the holder of a commercial paper in order to transfer the title, all of which will be explained in the study of Commercial Law. We shall explain here the four most used by the bookkeeper: "in blank," "in full," "for deposit," and "for collection."

John Jones

¶ 1. *"In Blank."* An endorsement in blank is the name of the payee or holder only, written across the back. It has the same effect as making the paper payable to bearer, and may be transferred by any subsequent holder, without further endorsement; this is generally required.

Pay to the order of
C. W. King
John Jones

¶ 2. *"In Full."* This endorsement is effected by writing "Pay to the order of" above the name of the person or firm to whom it is transferred, then signing the name of the payee or holder. The person to whom it is transferred must endorse it before any succeeding holder can use it. All papers sent through the mail, or to be held for some time by the person who receives them, should be endorsed in full.

Pay to the order of
Union Bank
For deposit
W. H. Goodwin

¶ 3. *"For Deposit."* Checks or other commercial paper deposited at a bank should have "For Deposit" written above the name of the person depositing; in case they are lost, they are worthless to any one except the depositor. Many firms use a rubber stamp for endorsing checks and other cash items for deposit. This is more convenient when making a deposit as it saves much time in endorsing the papers. When so endorsed, papers can only be used as a deposit in the bank.

For collection
W. H. Goodwin

¶ 4. *"For Collection."* Notes left at a bank or other collection agency for collection, should have "For Collection" written above the endorsement. "Pay to the order of" and the name of the bank or Collection agency is written above this endorsement. This prevents the paper being used as property of the bank, or collection agency.

§ 110. **Endorsement for Receipt of Part Payment.** When only part payment is made on commercial paper, the receipt for the same should be written on the back of the paper, and by the holder. The date and amount is all that is necessary, and under no circumstances should the holder write his name.

§ 111. **Endorsement for Accommodation.** This is effected by any one signing his name on the back of a commercial paper for the purpose of guarantying the payment. This class of endorsers is as responsible for the payment of the paper as if they had transferred it.

The endorsing of any commercial paper should be well understood, as it always transfers the title and holds the endorser, in case default is made in payment. The law allows the same protection to this class of paper as it does to money, and unless it is properly endorsed, if lost, the finder may dis pose of it, in which case the one who lost it can not recover it.

§ 112. **Signing Commercial Papers.** All commercial papers should be signed by the party or parties responsible for payment, or by a lawful agent. An agent authorized to sign commercial papers, should have a Power of Attorney as evidence of his authority. In the case of a partnership either partner has the authority to sign contracts, and can bind the firm by his action. In the case of a corporation, the signature must be made by a legally authorized official; and those accepting a commercial paper signed by a corporation, must know that the person who signed the contract has authority to do so. When commercial paper is signed by a partnership or corporation, the firm name must appear first, and under this the name of the partner, or person, who is authorized to sign. No one should sign commercial papers for another without writing his own name, preceded by the word "By," or "Per" underneath the name signed, and he should not do this unless he has the proper authority to sign the paper. If he signs the name of another, whether it is an individual, partnership or corporation, and does not write his name, he might be held for forgery, in case the principal should deny his authority. If he signs his name underneath that of the principal without using the words "By" or "Per," he may then be held jointly with the principal or maker.

QUESTIONS.

1. Define a commercial paper. (§ 93.)
2. What is a draft? (§ 94.)
3. What is a sight draft? (§ 95.)
4. What is a time draft? (§ 96.) An acceptance? (§ 96, ¶ 1.)
5. What was the original use of a draft? (§ 97.)
6. What is the present use of a draft? (§ 98.)
7. What is a note? (§ 99.)
8. For what are notes used? (§ 99.)
9. Why is a time draft that has been accepted regarded the same as a note? (§ 99.)
10. Name the kinds of commercial paper regarded as cash. (§ 100.)
11. What is a personal check? (§ 100, ¶ 1.)
12. What is a bank draft? (§ 100, ¶ 2.)
13. What is a cashier's check? (§ 100, ¶ 3.)
14. What is an express money order? (§ 100, ¶ 4.)
15. What is a bank money order? (§ 100, ¶ 5.)
16. What is a postal money order? (§ 100, ¶ 6.)
17. What is a bank? (§ 101.)
18. Can money deposited in a bank be withdrawn at any time? (§ 101.)
19. What is a deposit ticket? (§ 102.)
20. Describe the method of making a deposit. (§ 103.)
21. What is meant by change? (§ 103, ¶ 1.)
22. What is meant by paper money? (§ 103, ¶ 2.)
23. What is meant by checks? (§ 103, ¶ 3.)
24. Why and how must each check be endorsed? (§ 103, ¶ 4.)
25. What does the total of the deposit ticket show? (§ 103, ¶ 5.)
26. What is a check? (§ 104.)
27. Describe the method of writing a check. (§ 105.)
28. What does the date of the check show? (§ 105, ¶ 1.)
29. Is it necessary to write the name of the person to whom the check is payable? (§ 105, ¶ 2.)
30. Why is the amount indicated in figures and writing? (§ 105, ¶ 3.)
31. If the two amounts do not agree, which is considered? (§ 105, ¶ 3.)
32. How must a check be signed? (§ 105, ¶ 4.)
33. What is the usual method of opening an account with the bank? (§ 106.)
34. Why do you suppose banks wish a new customer to be well recommended?
35. Describe the method of keeping an account with the bank. (§ 107.)
36. Define endorsements. (§ 108.)
37. What is meant by endorsement for transfer? (§ 109.)
38. Name the four kinds of endorsements for transfer and distinguish between each. (§ 109, ¶¶ 1—4.)
39. When a part payment is made on a note how is the receipt given? (§ 110.)
40. What is meant by endorsement for accommodation? (§ 111.)
41. Who should sign a commercial paper? (§ 112.)
42. How is a commercial paper signed? (§ 112.)

SALES BOOK.

§ **113. The Object of the Sales Book** is to contain a record of credit sales. In a mercantile or trading business, there are always more or less credit sales. To record each of these in the journal means to write the name of the person to whom the goods were sold, the word "Merchandise," together with the two amounts, and the necessary explanation. If all the credit sales are entered in one book, and no other transactions are entered in this book, the total amount would equal the credit sales of merchandise. There are three important steps necessary to make an entry in the sales book: The date; the name of the person to whom the sale was made and the amount; and the explanation, which must contain a list of the goods sold as shown on the bill rendered. It is necessary to keep a record of all goods sold on time, because a customer will sometimes dispute the amount with which he is charged.

¶ 1. *A Credit Sale is entered in the Sales Book* as follows: The date, which is written at the top

February 2, 191

Browning Livery Co.			67 50
3800 lbs. Hay	$ 20.00	38	
20 bu. Corn	.65	13	
10 " Oats	.45	4 50	
1,000 lbs. Bran		12	
3			
J. E. Clark			69
10 lbs. Butter	.40	4	
210 " Lard	.13	27 30	
18 cans Tomatoes		1 85	
50 lbs. Gran. Sugar	.07	3 50	
10 " Arbuckle Coffee	.20	2	
85 " Ham	.14	11 90	
3 brls. White Lily	$ 6.15	18 45	
5			
W. L. Wallace			34 48
2 brls. Roller King	$ 5.50	11	
8 bu. Meal	.75	6	
5 " I. Potatoes	$ 1.00	5	
5 " Corn	.65	3 25	
71 lbs. Ham	.13	9 23	
8			
Central Hotel			55 77
4 brls. Roller King	$ 5.50	22	
4 bu. Meal	.75	3	
209 lbs. Lard	.13	27 17	
15 " Arbuckle Coffee	.20	3	
12 scks. Salt	.05	60	
10			
M. A. Johnson			44 16
20 bu. Corn	.65	13	
55 lbs. Ham	.13	7 15	
8 doz. Eggs	.22	1 76	
5 bu. Oats	.45	2 25	
100 lbs. Gran. Sugar	.07	7	
4 brls. Roller King	$ 5.50	22	808 97
Mdse. Cr. Total Credit Sales			808 97

Illustration No. 33. Sales Book.

Cash

Receipts

191						
Feb	1		Balance	On hand		1547 50
			Central Hotel	In full of account	12 35	
	2		Imperial Hotel	On acct	95 75	
	3		Merchandise	Sundry cash sales	87 65	
	5		R. G. Mathews	In full of acct 1595 80	24 05 219 80	
	7		M. A. Johnson	In full of acct	17 40	
			A. R. Jennings	In full of acct	54 25	
	10		Merchandise	Sundry cash sales	107 80	
	13		Browning Livery Co	On acct 1436.80	48 65 447 90	
	15	✓	A. R. David	Bill sold today	66 50	
	17		Merchandise	Sundry cash sales	47 50	
	19		C. L. Loyd	In full of acct 1475 45	28 25 590 15	
	24		Browning Livery Co.	On acct	38 25	
			Merchandise	Sundry cash sales	95 50	
			J. E. Clark	On acct	40	762 90
						2311 40
Mar	1	✓	Balance	In Merchants Nat'l Bank		1402 45

Illustration No. 34. Debit side of Cash Book.

for the first sale, and in the center of the page for the succeeding sales; the name of the person to whom the sale was made, and his address, if desired; the amount of the sale; a description of the items sold and the amount of each. The name is written at the left, exactly the same as a debit account in the journal; the address, if given, is written on the same line, and just to the right of the name; the amount, which is the total of the sale, is entered in the second money column, on the same line with the name; the description of the items sold, which is a copy of the bill rendered, is entered just below the name, beginning one-half inch to the right. Enter each item on a line to itself, and extend the amount of the item into the first money column. Illustration No. 33 shows the correct form of sales book entries.

¶ 2. *Since nothing but Credit Sales are Entered in this Book*, it is not necessary to write the word "Merchandise" at the time each sale is made, or to credit the Merchandise account at the time the customer is charged. When a page is full, it is footed and the total forwarded to the next page. At the end of the month, the Merchandise account will be credited with the total amount of the sales, which equals the sum of the various debits posted to customer's accounts.

CASH BOOK.

§ **114. The Object of the Cash Book** is to contain a record of all the transactions affecting the Cash account. In every business there are more transactions with cash than any other account. If all of these are entered in a special book for cash transactions, much time will be saved, since a journal entry requires the word "Cash" written for each debit or credit. The cash book is really the Cash account, and when kept, usually represents the only record with cash. Since cash transactions affect the business in two ways, one when cash is received, and the other when it is paid, it is best to arrange

Cash

Payments.

Feb	3	Lakeview Creamery	In full of acct	28	
	5	Donaldson Bros.	On acct.	125	
	6	Expense	Painting office	18 50 171 50	
	8	J. A. Smith & Co.	In full of acct.	197 10	
	12	Furniture & Fixtures	Desk $35. Chair $5.	40	
	13	Dick McMillan & Co.	On account	150 558 60	
	17	Hazen & Lotspeich	In full of acct.	103 60 662 20	
	23	J. A. Smith & Co.	On acct.	175	
	28	Expense	Bookkeeper's salary	25	
		Expense	$35. Rent $2.50 Stamps $9.25 Clerk	46 75	908 95
		Balance			1402 45
					2311 40

Illustration No. 35. Credit side of Cash Book.

the cash book so that transactions with cash received may be kept on one page, and those when cash is paid on another. These pages should be opposite each other, and the receipts written on the left, because cash is debited when money is received; and the payments on the right, because cash is credited when money is paid. Illustration No. 34 shows the debit side of the cash book, and No. 35 the credit side.

¶ 1. *Debit side.* This page contains a record of all transactions in which cash is received. It is the debit side because cash is debited when received. There are three important steps necessary to record a transaction on the debit side of the cash book: The date; the name of the person from whom money was received, or the account credited, and the amount; the explanation or information for the auditor. These facts are all written on one line, and in the order named. When the month and day of the month are the same in more than one transaction, it is not necessary to repeat them, as all transactions between one date and the next are supposed to have occurred on the date last written.

If all the transactions in which cash is received are entered on the debit side of the cash book, the total of this side is the amount of cash received. This amount, plus the balance on hand at the beginning of the month, will be the cash on hand, if none has been paid. See illustration No. 34 for form of the debit side of the cash book.

¶ 2. *Credit side.* This page contains a record of all the transactions in which cash is paid. It is the credit side because cash is credited when paid. There are three important steps necessary to record a transaction on the credit side of the cash book: The date; the name of the person to whom the amount was paid, or account debited, and the amount; the explanation or information for the auditor. This is all written on one line, and in the order named. When the month and day of the month is the same in more than one transaction, it is not necessary to repeat them. When no date is given, all of the transactions are supposed to have occurred on the date last written.

If all transactions in which cash is paid are entered on the credit side of the cash book, the total will represent all the money paid. This deducted from the total receipts, plus the amount on hand at the beginning of the month, must show the cash on hand. Illustration No. 35 shows the form of the credit side of the cash book.

¶ 3. *Form of Cash Book.* The student will note the position of illustrations Nos. 34 and 35 as well as the method of recording the transactions. The receipts and payments are opposite each other, and all the lines on each side are used in regular order. At the end of the month, the cash book is ruled on the same blue lines on each side, thus beginning the new month on the same blue lines on each side. This is always the case, no matter if there are only a few entries on one page, and all the lines on the other are used. The first page of a cash book is never used. The even pages always represent the receipts, or debit side; the odd pages, the payments, or credit side. Thus page two is the debit side, and page three the credit side; page four is the debit side, and page five, the credit side, etc.

§ 115. To Prove Cash. If all transactions in which cash is received are entered on the debit side, and all transactions in which cash is paid, are entered on the credit side, the difference must be the amount of money on hand. This may be in the bank, the safe, or a part in each place. To prove cash, add the debit side and place the total in small pencil figures just beneath the last amount entered; add the credit side, and write the total in small pencil figures, just beneath the last amount entered; on scratch paper add the balance on hand at the beginning of the month, to the receipts, and from this amount deduct the payments; the result will be the cash on hand, as explained. The pencil figures on each side will be the total of all amounts written above; hence, when cash is proved, all amounts entered below the last preceding pencil figures are added to them. The cash book is not ruled until the end of the month.

§ 116. Posting from the Sales Book, Journal and Cash Book. When transactions are being recorded in these three books, post the amounts in the following order: Sales book, journal, debit side of the cash book and credit side of the cash book. Note detailed information in §§ 117—120.

§ 117. Posting from the Sales Book. Each amount written in the second column is posted to the debit side of the account written on the same line with it, which is the name of the person or firm to whom the sale was made. The posting is indicated by writing the page of the ledger in the L. F. column at the left of the name of the account, and the page of the sales book in the L. F. column in the ledger; place the letter "S" to the left of the page to show the book of original entry.

The Merchandise account is not credited with each sale, but with the total sales at the end of the month, or when the Trial Balance is made.

Each page in the sales book is footed and the total carried forward to the top of the next. A single red line should be drawn across the second column on the next or last blue line at the bottom of the page. The total is written just beneath this, and on the same line with the total write, "Carried forward." At the top of the next page, on the first blue line, write, "Brought forward," and place the total of the preceding page in the second money column on the same line. Illustration No. 33 shows the correct ruling at the end of the month.

§ 118. Posting from the Journal. Each amount in the debit column is posted to the debit side of the account written on the same line with it. Each amount written in the credit column is posted to the credit side of the account written on the same line with it. See § 60. Special terms on invoices and the time on notes is written in the explanation column of the ledger on the same line with the amount. The letter "J" is used to show the book of original entry.

§ 119. Posting from the Debit Side of the Cash Book. Each amount in the first money column is posted to the credit side of the account written on the same line with it. The posting is indicated by writing the ledger page in the L. F. column at the left of the amount and the cash book page in the L. F. column in the ledger. The letter "C" should be written to the left of the page in the ledger, to show the book of original entry.

§ 120. Posting from the Credit Side of the Cash Book. Each amount in the first money

column is posted to the debit side of the account written on the same line with it. The posting is indicated by placing the ledger page in the L. F. column at the left of the name and the page of the cash book in the L. F. column in the ledger. The letter "C" should be written to the left of the page in the ledger, to show the book of original entry.

The Cash account is not debited for the total of the debit side and credited for the total of the credit side, because the cash book represents the Cash account, and no Cash account is necessary in the ledger when the cash book is kept.

NOTE.—Some bookkeepers prefer keeping a Cash account in the ledger. When this is done, the total receipts of cash are posted to the debit side, and the total payments, to the credit side, these are posted at the end of the month, or when the cash book is ruled.

QUESTIONS.

1. Define the sales book. (§ 113.)
2. What class of transactions are entered in the sales book? (§ 113.)
3. What are the three steps necessary for entering a transaction in the sales book? (§ 113.)
4. Why are the items included in the sale described in the sales book? (§ 113, ¶ 1.)
5. What does the total of the sales book show? (§ 113, ¶ 2.)
6. At the end of the month to what account in the ledger is the total of the sales book posted? (§ 113, ¶ 2.)
7. Define the cash book. (§ 114.)
8. Why are the receipts entered on the debit side? (§ 114.)
9. Why are payments entered on the credit side? (§ 114.)
10. Why are these two sides opposite each other? (§ 114.)
11. What account in the ledger does the cash book represent? (§ 114.)
12. What transactions are entered on the debit side of the cash book? (§ 114, ¶ 1.)
13. Describe the three steps necessary for entering a transaction on the debit side of the cash book? (§ 114, ¶ 1.)
14. What does the total of the debit side of the cash book represent? (§ 114, ¶ 1.)
15. What transactions are entered on the credit side of the cash book? (§ 114, ¶ 2.)
16. Describe the three steps necessary to enter a transaction on the credit side of the cash book. (§ 114, ¶ 2.)
17. How many lines are used for the entry? (§ 114, ¶ 2.)
18. What does the total of the credit side represent? (§ 114, ¶ 2.)
19. Describe the form of the cash book. (§ 114, ¶ 3.)
20. What do even pages represent? Odd pages? (§ 114, ¶ 3.)
21. Describe the method of proving cash when the cash book is used. (§ 115.)
22. Why does the difference between the two sides of the cash book equal the amount of money on hand or on hand and in the bank? (§ 115.)
23. Describe the method of posting from the sales book. (§ 117.)
24. Why is it necessary to foot each page and carry the total forward? (§ 117.)
25. Describe the method of forwarding the totals of each page. (§ 117.)
26. To what account in the ledger is the total of the sales book posted at the end of the month? (§ 117.)
27. Why is Merchandise not credited with each sale? (§ 117.)
28. Describe the method of posting from the journal. (§ 60, § 118.)
29. Describe the method of posting from the debit side of the cash book. (§ 119.)
30. Why is the total of the debit side of the cash book not posted to the cash account in the ledger? (§ 119.)
31. Describe the method of posting from the credit side of the cash book. (§ 120.)
32. Why is the total of the credit side of the cash book not posted to the ledger? (§ 120.)
33. When posting from the sales book, journal, and cash book, where does the bookkeeper place the check marks?
34. How does the bookkeeper indicate that the various amounts have been posted to the ledger?

§ 121. **Property Purchased for Use in the Business.** In every business it is necessary to purchase certain property for use in the business. This property is not to be sold, but is purchased because it is necessary. This includes desks, safes, chairs, shelving, show cases, scales, horses, wagons, automobiles, machinery, and any other property that may be needed. Property of this kind must of necessity decrease in value because of its use. The use of the property will, to a certain extent, determine the decrease in value. Machinery, which is in constant use, will wear out much quicker than desks, showcases, shelving, etc. Read § 21 ¶ 2.

There are two methods of keeping accounts with property of this kind. One is to have the account show the present value of the property, and the other the cost value. The first method will be used in this set.

FURNITURE AND FIXTURES ACCOUNT.

§ **122. The Object of this Account** is to show the cost of property purchased for use in the office and store room, such as desks, typewriters, filing cabinets, show cases, scales, etc. This property is not bought to be sold, but to be used in the business. The name of each article should be written in the explanation column in the ledger. Where a number of articles are in use, it is best to keep a permanent list in a book especially prepared for this purpose.

Debit Furniture and Fixtures:

¶ 1. For the present value of furniture and fixtures on hand at the beginning of the business.

¶ 2. For the cost of any property of this kind purchased.

Credit Furniture and Fixtures:

¶ 3. With the selling price of any property, the value of which was charged to this account.

¶ 4. With the inventory or present value of property at the close of the fiscal period.

¶ 5. With the amount of depreciation, which is the difference between the value at the beginning of the period and at the end.

¶ 6. *The Difference between the two Sides of this Account* will show the value of the property, but it is not used in making the Financial statement, the inventory or present value, and the depreciation being considered.

¶ 7. *To Close the Furniture and Fixtures Account.* Enter the inventory, which is the present value of the property, on the credit side, in red ink, also the depreciation, which is the difference between the inventory and the present cost value, on the credit side in red ink. The two amounts, added to any that may appear on the credit side, will make the account balance; hence, it is ruled and footed. The amount of the depreciation is transferred to the Profit and Loss account, or some expense account and the inventory is brought down on the debit side, in black ink, under date of the day following the closing. See illustration No. 36.

Furniture & Fixtures

191-					191-				
Feb.	12	Desk 35 Chairs 5	C3	40	Feb.	28	Inventory	✓	60
	23	Show Case	10	25		28	Profit & Loss	4	5
				65					65
Mch.	1	Inventory	✓	60					

Illustration No. 36. Furniture and Fixtures Account.

EXERCISES IN FURNITURE AND FIXTURES ACCOUNT.

The following exercises are given to familiarize the student with the various debits and credits that affect the Furniture and Fixtures account, and the form of closing. The references are to § 122. Work these out on ledger paper, and present for approval. See illustration No. 36.

EXERCISE No. 25. February 12th, paid cash for desk, $35.00; chair, $5.00 (¶ 2); 23d, bought from Cullen & Shields, on account, one show case, $25.00 (¶ 2); 28th, the Financial, and Profit and Loss statements are to be made, and the books closed. $5.00 deduction is made for depreciation in value (¶¶ 4 and 5). See illustration No. 36, for form of account, method of ruling, etc.

EXERCISE No. 26. January 1st, furniture and fixtures on hand valued at $250.00 (¶ 1); 20th, bought 12 chairs for $14.00. (¶ 2). 26th, bought a Remington typewriter for $100.00. (¶ 2). March 25th, Paid for office partition, $36.25. April 29th, paid for scales $45.00. (¶ 2). June 6th, sold desk (on hand January 1st) for $26.50 (¶ 3); 30th, the Financial, and Profit and Loss statements are to be made, and the books closed. A 5% deduction is made for depreciation in value of furniture and fixtures on hand (¶ 4 and ¶ 5). This 5% is calculated on the difference of the account.

EXERCISE No. 27. July 4th, bought a safe for $150.00 (¶ 2); 16th, bought standing desk for $25.00 (¶ 2); 18th, bought stool for $5.00 (¶ 2); August 11th, bought scales for $40.00 (¶ 2); 18th, bought six chairs for $9.00 (¶ 2); Sept. 28th, bought filing cases, $100.00 (¶ 2); Oct. 19th, bought an Underwood typewriter for $100.00 (¶ 2); 31st, bought six pair trucks, $25.00 (¶ 2); Nov. 26th, sold one section of filing case for $16.50 (¶ 3); Dec. 9th, bought show case, $35.00 (¶ 2); 11th, bought two counters and three tables for store room for $42.50 (¶ 2); 31st, at the time the Financial statement is made, a 5% deduction is made for depreciation in value (¶¶ 4 and 5). (Calculate the 5% on the difference and not on the debit side.)

NOTES RECEIVABLE ACCOUNT.

§ 123. **This Account is Kept to Show the Value** of each note (§ 99) or acceptance (§ 96, ¶ 1) received and paid. This refers to notes and acceptances received from customers, as a credit on account. An accepted draft (§ 99, ¶ 1), is regarded as a note, as it is a written promise to pay money at a fixed time.

Debit Notes Receivable:

¶ 1. For the face of each note or accepted draft on hand at the beginning of the business.

¶ 2. For the face of each note and acceptance received. (Unless a Notes Receivable book is kept, the time is written in the explanation column.)

¶ 3. For the face of each time draft drawn on a customer and accepted by him.

The debit side is always the larger.

Credit Notes Receivable:

¶ 4. For the face of each note when it is paid.

¶ 5. For the face of each note or accepted draft discounted.

¶ 6. For the face of each note or accepted draft transferred.

NOTE.—Part payments are indicated by letters, the same as personal accounts. (§ 29, Note, page 19.)

¶ 7. *The Balance of this account* is the value of notes or accepted drafts belonging to the business, and must appear as a resource on the Financial statement. As the resources are listed in the order of their availability, the Notes Receivable should appear next after Merchandise inventory.

¶ 8. *To Close the Notes Receivable Account.* Usually this account is not closed unless it balances, that is, the two sides are equal. If a payment of any one note balances the account at a certain period, it is ruled with a single red line, the same as a personal account. Pencil footings show that the totals

on each side are equal. If the account is ruled, and the balance brought down or forwarded to another page, single and double red lines are used, and the footings entered in black ink. The difference is entered on the credit side, in red ink, and brought down on the opposite side in black ink (§ 88, ¶ 2).

Notes Receivable

191 Feb	16	15 ds.	9	~~42 30~~	191 Mch	3		64	42 30
	24	10 "	10	42 25		5		64	42 25
Mch	1	30 "	12	87 65					
	3	20 "	14	39 50					
	8	30 "	16	52 39					
				1 9 5 4					

Illustration No. 37. Notes Receivable Account.

EXERCISES IN NOTES RECEIVABLE ACCOUNT.

The following exercises are given to familiarize the student with the various debits and credits affecting the Notes Receivable account and the method of ruling. The references are to § 123. He will work these out on ledger paper and present to the teacher for approval. See illustration No. 37.

EXERCISE No. 28. February 16th, received a fifteen-day note for $42.30 (¶ 2); 24th, received a ten-day note for $42.25; March 1st, received a thirty-day note for $87.65; 3d, Received a twenty-day note for $39.50; 3d, received check for $42.30 in payment of note due today (¶ 4); 5th, received check for $42.25 for note due today (¶ 4); 8th, received a thirty-day note for $52.39 (¶ 2).

EXERCISE No. 29. April 5th, received a sixty day note for $129.62 (¶ 2); May 6th, received a thirty-day note, $379.59. 12th, received a three-month note, $1,462.30. June 1st, Hall Bros. accepted our draft at ten days for $500.00, on account (¶ 3); 5th, received $379.59 for note due today (¶ 4); 10th, transferred note received April 5th (¶ 6); 11th, received $500.00 for Hall Bros.' draft (¶ 4); 20th, received a ninety-day note for $800.00.

EXERCISE No. 30. July 1st, at the beginning of the business there were three notes on hand; one for $150.00, dated May 18th, due in sixty days; one for $300.00, dated June 25th, due in sixty days, and one for $175.00, dated June 29th, due in sixty days (¶ 1); 16th, received a ninety-day note for $862.50; 17th, received $150.00 for note due today (¶ 4); Aug. 9th, received a thirty-day note for $975.80; 18th, received a sixty-day note for $329.48; 20th, C. A. Dow accepted our thirty-day draft for $650.00 (¶ 3); 24th, received cash, $300.00, in payment of note due; Sept. 1st, received a sixty-day note for $119.98; 8th, received check for $975.80 in payment of note due today; 10th, received check for $175.00 in payment of note; 10th, transferred Dow's draft for $650.00 to D. C. Miller, on account (¶ 6); 25th, received sixty-day note for $[illegible]50.00; 29th, received $862.50 in payment of note; 30th, transferred note for $119.98 to Day Bros., on account (¶ 6).

NOTES PAYABLE ACCOUNT.

§ 124. **The Object of this Account** is to show the amount owed by the business, as evidenced by written obligations, which are notes (§99) or accepted drafts (§96). This account is the opposite of the Notes Receivable.

Debit Notes Payable:

¶ 1. With the face of each note or accepted draft when paid by the business.

NOTE:—Part payments are indicated by letters the same as personal accounts. (§ 29, Note.)

Credit Notes Payable:

¶ 2. For the face of each note owed at the beginning of the business.

¶ 3. For the face of each note signed by business.

¶ 4. For the face of each time draft accepted. (If a Notes Payable book is not kept, the time of each note should be written in the explanation column.)

The credit side is always the larger.

¶ 5. *The Balance of this Account* shows the amount the firm owes on notes and accepted drafts, and is a liability. It appears first in the list of liabilities shown on the Financial statement.

¶ 6. *To Close the Notes Payable Account.* Usually this account is not closed except when it balances. If at any time the payment of a note or draft makes the two sides equal at some particular point, it is ruled by a single red line, the same as a personal account. If the balance is to be brought down or transferred to a new page, enter the balance on the debit side in red ink; rule the account with single and double red lines; enter the footings in black ink and bring the balance down or transfer it to a new page on the credit side in black ink.

Notes Payable

191						191					
Mch.	5		62	47	75	Feb	20	20 ds (note)	10	96	
	12		62	96			22	10 " (draft)	10	47	75

Illustration No. 38. Notes Payable Account.

EXERCISES IN NOTES PAYABLE ACCOUNT.

The following exercises are given to familiarize the student with the debits and credits affecting the Notes Payable account. The references are to § 124. He will work them out on ledger paper and present to the teacher for approval. See illustration No. 38.

EXERCISE No. 31. February 20th, gave twenty-day note for $96.00, in full of account (¶ 3); 22d, accepted ten-day draft, $47.75, in full of account (¶ 4); March 5th, paid ten-day draft, $47.75 (¶ 1); 6th, accepted a fifteen-day draft in full of account, $378.25 (¶ 4); 8th, accepted a ten-day draft, $155.00, in full of account; 12th, paid twenty-day note for $96.00 (¶ 1); 13th, gave ninety-day note for $229.78, in full of account; 19th, paid ten-day draft, $155.00; 21st, borrowed $400.00 from the bank on thirty-day note (¶ 3); 21st, paid fifteen-day draft, $378.25; 31st, prepaid ninety-day note for $229.78 (¶ 1).

EXERCISE No. 32. October 1st, gave sixty-day note for $416.29 (¶ 3); 26th, gave thirty-day note for $321.82; November 11th, gave-ninety day note for $722.80; 25th, paid thirty-day note, $321.82 (¶ 1); 27th, accepted thirty-day draft for $500.00 (¶ 4); 30th, gave thirty-day note for $350.00; December 16th, paid sixty-day note for $416.29; 19th, gave sixty-day note for $379.62; 21st, accepted ten-day draft for $50.00 ; 27th, paid thirty-day draft, $500.00; 30th, gave a ninety-day note for $411.49; 31st, paid thirty-day note, $350.00.

EXERCISE No. 33. At the beginning of the business January 2d, we owed two notes, one dated December 24th, due in thirty days, for $1,500.00; the other dated December 15th, due in sixty days, $1,000.00 (¶ 2); 3d, paid thirty-day note for $1,500.00; 9th, gave sixty-day note for $276.45;

February 1st, gave thirty-day note for $239.80; 14th, paid $1,000.00 note due today (¶ 1), by check, for $500.00 and a new note, for $500.00 due in sixty days, with interest (¶ 3). (The face of the old note is entered on the debit side, and the new note on the credit side. No record is made of the interest until it is paid.) 28th, gave thirty-day note for $715.29; March 5th, accepted sixty-day draft for $326.16; 12th, accepted ten-day draft for $584.79; 22d, paid ten-day draft, $584.79; 30th, gave ninety-day note for $298.64; 31st, paid thirty-day note for $715.29.

QUESTIONS.

1. What kind of property is usually purchased for use in the business? (§ 121.)
2. Describe the two methods used for keeping these accounts. (§ 121.)
3. Define Furniture and Fixtures account. (§ 122.)
4. Name the two debits. (§ 122, ¶¶ 1 and 2.)
5. Name the three credits. (§ 122, ¶¶ 3—5.)
6. What does the difference show? (§ 122.)
7. What does it represent on the Financial statement? (§ 122.)
8. What does it represent on the Profit and Loss statement? (§ 122.)
9. Describe the method of closing the Furniture and Fixtures account. (§ 122.)
10. Define the Notes Receivable account. (§ 123.)
11. Name the three debits. (§ 123, ¶¶ 1—3.)
12. Name the three credits. (§ 123, ¶¶ 4—6.)
13. Which side is always the larger? Why?
14. What does the balance show? (§ 123.)
15. What does it represent on the Financial statement? (§ 123.)
16. Describe the method of closing the Notes Receivable account. (§ 123.)
17. If only a part of a note is paid, how would the bookkeeper indicate the note on which it is credited? (See Note, § 29, page 19.)
18. Define the Notes Payable account. (§ 124)
19. Give the special debit. (§ 124, ¶ 1.)
20. Name the three credits. (§ 124, ¶¶ 2—4.)
21. What does the balance show? (§ 124.)
22. What does it indicate on the Financial statement? (§ 124.)
23. Describe the method of closing the Notes Payable account. (§ 124.)
24. How are partial payments on notes indicated? (§ 29, Note, page 19.)

§ 125. Trial Balance, February 28th. As explained in § 66, the Trial Balance is a list of all the open accounts on the ledger, and is made to prove that the two sides of the ledger are equal. The instructions (§ 67) for taking a Trial Balance, January 31st, can be applied in taking this Trial Balance.

Each account on the ledger that has more than one amount on either side is footed, and the total placed in small pencil figures just beneath the blue line on which the last entry has been made. The difference between the pencil amounts is written on the larger side in small pencil figures to the left of the last entry and on the same line. These must be written below the balance used in the preceding Trial Balance, otherwise errors may be made in transferring the balance from the ledger to the Trial Balance.

The accounts are listed on a sheet of journal paper in the same order as they appear in the ledger. As the Cash account is represented by the cash book, which is really a part of the ledger, it must be entered on the Trial Balance and may be written first or the next after Mr. Goodwin's name which is the same position as it occupied in January.

The total of the debit column of the Trial Balance must equal the total of the credit column, because the first represents the debit side of the ledger, and the second, the credit side. The ledger is in balance because the debits and credits in each transaction are equal. If the Trial Balance does not balance, the error must be detected by checking, as instructed in § 65.

§ 126. Financial Statement, February 28th. As explained in § 79, ¶¶ 1—3, the Financial statement shows the resources, liabilities and present capital. The active resources (¶ 1) are listed first and in the order of their availability. At this time they consist of the Cash, as shown by the

Financial Statement, W. H. Goodwin, Feb. 28, 191

Resources			
Cash, in the bank		1402.45	
Mdse. inventory Feb. 28		1502.90	
Notes Receivable		84.55	
Personal Accounts			
A. R. Jennings	93.55		
Central Hotel	55.77		
M. A. Johnson	44.16		
Imperial Hotel	33.70		
J. C. Wilson	54.21		
Browning Livery Co.	79.43		
J. E. Clark	94.64		
W. L. Wallace	34.48		
Cumberland Hotel	106.94		
J. H. Porter	52.39	649.27	
Furniture & Fixtures	65.		
Less depreciation	5.	60	
Total Resources			3699.17
Liabilities			
Notes Payable		143.75	
Personal Accounts			
J. Allen Smith Co.	116.		
Donaldson Bros.	378.25		
Dick, McMillan & Co.	229.78		
M. L. Ross	131.15		
Cullen & Shields	25.		
W. W. Scarborough & Co.	78.		
R. Knaffl	164.31	1122.49	
Total Liabilities			1266.24
Present Net Capital			2432.93
Net Capital Feb. 1,			2182.81
Net Gain			250.12

Illustration No. 39.

cash balance in the cash book; Merchandise as per inventory of the goods in stock, February 28th; Notes Receivable (amounts due on notes); Accounts Receivable (total amount due from the ten persons who owe us for goods sold them on time). The fixed assets (¶ 1) are listed next. At this time they are represented by the Furniture and Fixtures account. The present value of this property is $5.00 less than the amount shown by the account, the deduction being made for the use of the property. The present value, which is the cost value, less the $5.00, is used in making the Financial statement. The liabilities (¶ 2) are listed next and in the following order: Notes Payable (amounts due on notes and accepted drafts); Accounts Payable (total amount due the seven persons from whom merchandise was purchased on time).

The difference between the total resources (¶ 1) and the total liabilities (¶ 2) is Mr. Goodwin's present interest in the business (¶ 3). The difference between this and his investment or present capital at the beginning of February, which is the beginning of the current fiscal period, is his net gain. See illustration No. 39.

§ 127. Profit and Loss Statement, February 28th. As explained in § 80, ¶¶ 1—5, the Profit and Loss statement shows the gross trading profit (¶ 1), other profits (¶ 2), and the total profit for the period; the operating expense (¶ 3), other losses (¶ 4), and the total loss for the period, and the net gain (¶ 5).

The gross trading profit is ascertained by the Trading statement, which may be made a part of the Profit and Loss statement or a separate statement. At this time the Merchandise account is the only account that affects the Trading statement, and the gross trading profit is ascertained by making the Trading statement a part of the Profit and Loss statement. The debit side of the Merchandise account shows the inventory February 1st, and the cost of merchandise purchased during February. The credit side shows the returns from sales made during February. The present value of goods on hand is represented by the inventory made February 28th, and shows the goods

Profit & Loss Statement, W. H. Goodwin, Feb. 28, 191

Gains		
Mdse. Sales	1147 42	
Mdse. purchases $ 1422.49		
Mdse. on hand Feb. 1st. 882.46		
Total cost of merchandise 2304.95		
Less Inventory Feb. 28, 1502.90		
Net Cost of merchandise sold	802 05	
Profit on merchandise sold		345 37
Losses		
Expense	90 25	
Depreciation on Furn. & Fix.	5	
Total Losses		95 25
Net Gain		250 12

Illustration No. 40.

yet remaining from those on hand at the beginning of February and purchased during this month. The first part of illustration No. 40 shows the method of ascertaining the gross trading profit, or the profit made by buying and selling merchandise. At this time, this is the only profit represented on the Profit and Loss statement.

The losses (¶ 3) are represented by the Expense account, and the decrease in value of the furniture and fixtures. The total of these two accounts is the total losses for the fiscal period.

The difference (¶ 5) between the total gains as represented by the gross trading profit, and the total losses as represented by the Expense account and the loss on furniture and fixtures, is the net gain for the fiscal period. See illustration No. 40.

As explained, no facts shown by either the Financial, or Profit and Loss statement can be accepted as correct unless the net gain shown by the Profit and Loss statement is the same as the difference between the present capital at the end of the fiscal period and the present capital at the beginning of the period, as shown by the Financial statement. Illustrations Nos. 39 and 40 show the correct forms.

§ **128. Closing the Ledger, February 28th.** Closing an account means to transfer the balance to another account, and as explained in § 84, closing the ledger means closing those accounts that affect the Profit and Loss statement. At this time there are five accounts to close: the Merchandise account is closed into the Profit and Loss account (§ 86, ¶¶ 1—7, and § 31, ¶ 10); the Expense account is closed into the Profit and Loss account (§ 87, ¶¶ 1 and 2, and § 32, ¶ 6). The Furniture and Fixtures account is closed into the Profit and Loss account (§ 86, ¶¶ 1—7, and § 122, ¶ 7). The Profit and Loss account is closed into W. H. Goodwin's account (§ 87, ¶¶ 1 and 2, and § 33, ¶ 6). W. H. Goodwin's account is closed, as instructed in § 34, ¶ 10, and § 88, ¶ 3, and the Present capital brought down on the credit side, under date of March 1st. See illustrations Nos. 4, 5, 36, 6 and 7.

§ **129. Proof Sheet, February 28th.** After the ledger is closed, a Trial Balance is made to prove that the work has been done correctly. This is the "Proof Sheet" (§ 90) and will contain all those accounts on the Financial statement. It must balance, because the debits and credits have been kept equal in closing.

The thoughtful student will note that the value of the difference between all open accounts on the ledger, after it is closed, is the same as the present capital, or the owner's account. In other words, after his liabilities are paid, the remainder of the resources is his interest in the business.

Proof Sheet, February 28, 191

1	W. H. Goodwin		243293
2	Cash, cash book	140245	
3	Merchandise	150290	
11	Furniture & Fixtures	60	
12	Notes Receivable	8455	
12	Notes Payable		14375
✓	Personal Accounts, Customers	64927	
✓	Personal Accounts, Creditors		112249
		369917	369917
		369917	369917

Illustration No. 41.

JOURNAL ENTRIES, NOTES AND DRAFTS.

The student will make the journal entries for the following transactions. These are to be made on journal paper or paper ruled similar to it. When the exercises are completed, present the work to the teacher for inspection and approval.

EXERCISE No. 34. 1. Gave Simpson Bros. our sixty-day note, dated today, for $250.00, to apply on account. (Debit, § 30, ¶ 2; Credit, § 124, ¶ 3.)

2. John Howard gave us his thirty-day note, dated today, for $128.36, in full of account. (Debit, § 123, ¶ 2; Credit, § 29, ¶ 5.)

3. Sold James Morgan, on his note for thirty days, 225 bu. oats at 30 cents. (Debit, § 123, ¶ 2; Credit, § 31, ¶ 5.)

4. Received $150.00 in cash from A. C. Williams, in payment of his note due today. (Debit, § 27, ¶ 2; Credit, § 123, ¶ 4.)

5. Accepted Martin Bros.' ten-day draft for $329.86, in full of account. (Debit, § 30, ¶ 3; Credit, § 124, ¶ 3.)

6. Received $286.48 from M. J. Thompson, on his note, due today. (Debit, § 27, ¶ 2; Credit, § 123, ¶ 4.)

7. Bought from the Hall Safe & Lock Co., for $200.00, one fireproof safe, and gave in payment check for $50.00, and our note due in sixty days, for $150.00.

8. Drew a ten-day draft on A. C. Weaver for $150.00 for balance he owes us, and sent the draft to Arnold Bros., to apply on account we owe them.

Transactions of this kind do not occur very often in business, but when they do, the person to whom the draft is given is debited, and the one on whom it is drawn, credited.

9. Bought from Payne & Hart, merchandise per invoice of this date, $869.48. Gave in payment our ninety-day note, dated today.

10. James Milligan gave us his note for $125.00, due in thirty days from today, to apply on account.

11. Received from R. M. Upman, a ten-day draft on Hall Bros., for $150.00, to apply on account Upman owes us. Hall Bros. have accepted the draft.

12. Purchased from Remington Typewriter Co., one No. 11 Remington typewriter, for $100.00. Gave in payment our check for $25.00, and three notes for $25.00 each, due in thirty, sixty, and ninety days.

In this transaction there is one debit and four credits—one for the cash paid and one for each note. (§ 139).

13. Drew a ten-day draft on Yeager Bros. for $354.81, amount they owe us, and sent the same to Dawson & Perry to apply on account we owe them.

See instructions in No. 8.

14. J. J. Darring gave us his note for $175.00, due in sixty days from today, and his check for $86.14, in full of account he owes us.

This transaction requires two debits and one credit.

15. Bought from the Consolidated Milling Company, merchandise per invoice of this date, $689.28. Gave in payment a note which we hold (Notes Receivable) for $127.65, our note due in thirty days for $400.00, and our check for the balance.

16. Borrowed $400.00 from the bank on our thirty-day interest-bearing note for this amount.

17. Accepted Marblehead & Co.'s draft at ten days for $681.29, in full of account.

18. Paid Donaldson Bros. $250.00, in payment of a note which is due today.

19. Our note for $500.00 is due at the bank today. Gave them a check for $250.00, and a new note with interest for $250.00 in settlement of this.

20. Received check for $161.28 from L. E. Watters for his note due today.

21. Accepted Martin Bros.' ten-day draft for $150.00, to apply on account.

22. Paid our note for $200.00 due today.

23. Received from W. H. Weaver a draft for $165.25, drawn on A. H. Willis. Mr. Willis has accepted the draft.

24. Our note for $800.00, in favor of Stillman Bros., is due today. We have settled the same by giving them our check for $300.00, and two interest-bearing notes for $250 each, due in thirty and sixty days, respectively.

25. Robert Davis owes us a note for $627.65, which is due today. He settles the same by giving us his note for $300.00, a note which we owe that has been transferred to him for $127.65, and his check for the difference.

26. Paid our note due today by check, $186.42.

27. A. L. Day owes us $582.65. He settles the account by giving us his note due in thirty days for $250.00, a note which we owe (Notes Payable), but has been transferred to him for $210.00, and his check for the difference.

28. Accepted Borches & Co.'s thirty-day draft for $327.85, in full for invoice due today.

29. We owe Davis Bros. $865.75, which is due today. We make settlement as follows: Our note for $300.00, a note signed by them which we hold, for $209.11, a ten-day draft on Abbott Bros., for $104.65, and our check for the difference.

30. We owe Anderson Bros. $427.55. They accept our check for $127.55, and three notes of equal amount dated today, due in thirty, sixty; and ninety days, in full of account.

REVIEW QUESTIONS.

1. Define Commercial Paper and give three examples.
2. Distinguish between a sight draft and a time draft.
3. Is it necessary to accept a sight draft?
4. What kind of commercial paper is regarded as cash?
5. Describe the method of opening an account with the bank.
6. Why does the bank supply deposit tickets for the use of its depositors?
7. Describe the correct method of writing a check.
8. Why is it necessary when a person signs another person's name or the name of a firm to write his name under it, preceded by the words "by" or "per?"
9. What two new books are introduced in this set?
10. Define each and explain its advantages.
11. Describe the method of posting from each of these two books.
12. What three new accounts are introduced?
13. State the object of each and give at least one debit and credit of each.
14. Describe the method of taking the Trial Balance February 28th. (§ 125.)
15. Describe the method of making the Financial statement February 28th. (§ 126.)
16. Describe the method of making the Profit and Loss statement. (§ 127.)
17. Describe the method of closing the ledger February 28th. (§ 128.)
18. Describe the method of taking the Proof Sheet February 28th. (§ 129.)
19. What accounts are represented on the Financial statement that were not represented in January? (§ 126.)
20. What new accounts are represented on the Profit and Loss statement? (§ 127.)
21. After the books are closed February 28th, what is Mr. Goodwin's present capital?
22. Are there any accounts on the ledger that represent this?
23. At the time the books were closed February 28th, what time represents the current fiscal period?
24. Is it customary in business to close the books at the end of each month? Why?

MARCH.

A continuation of the February business, introducing the Purchases Book, Real Estate accounts, Interest account, and a general review of January and February.

THE PURCHASES BOOK.

§ **130. The Object of this Book** is to contain a record of all merchandise purchased on time, and no other transactions are entered in it. When kept, transactions in which goods are purchased are recorded in this book and *not* in the journal. In the average mercantile or trading business, there will not be as many entries in this book as in the sales book, because the goods are purchased in large quantities, and sold to the trade in smaller quantities. However, there will always be a sufficient number of credit purchases to justify the keeping of the purchases book.

The record in this book must show the *date*, the *name* of the person from whom the goods were purchased, the *date of the invoice*, the *terms*, and the *amount*. This information is written on one line in the order mentioned. There are various forms used, depending entirely upon the nature of the business, and the desire of those in charge of the office. Illustration No. 42 shows the form to be used in this set. The address of each person or firm may be shown if desired.

The invoices are filed in the same order as they are entered in the purchases book. This affords a ready reference to the items if desired. Some bookkeepers number the invoices and file them in numerical order. The date of entry should be indicated on the face of the invoice.

March, 191

Mar	2	Kaiser Bros	Mch 2 - account	113 80	
	5	Procter & Gamble Co	Mch 3 - Drft 10 days	155	
	7	J. A. Smith & Co	Mch 7 - account	242 35	
	10	W. W. Scarborough	Mch 10 - account	148 75	
	13	Hazen & Lotsperch	Mch 12 - account	245 70	
				905 60	
		Merchandise (Dr.)			905 60

Illustration No. 42. Purchases Book, March 1—15.

¶ 1. *Posting from the Purchases Book.* Each amount written in the first column is posted to the credit side of the name of the person, firm or corporation written on the same line with it. If there are any special terms, these must be written in the explanation column of the ledger. The page of the ledger is entered in the purchases book in the ruled column at the left of the name, to show that the amount has been posted. The page in the purchases book is entered in the folio column of the ledger for reference. Always post the amount first, the page of the purchases book next, then the date and the special terms last. These are entered in the explanation column. At the end of the month, or when a Trial Balance is to be taken, the purchases book is ruled and footed as shown in illustration No. 42, and the total posted to the debit side of the Merchandise account.

When transactions are being recorded in the purchases book, sales book, journal and cash book, post in the following order: Sales book, purchases book, journal, debit side of the cash book and credit side of the cash book.

REAL ESTATE.

§ 131. **Real Estate is Immovable Property,** such as land and the buildings and other improvements that go to make it valuable. Real Estate may be purchased by a business to be used as a home for the business, or for a speculative purpose. The value of real estate depends largely upon the location; it may decrease or increase owing to conditions of the surrounding property. For this reason property purchased to be used as a home for the business may decrease in value, not only because it is used, but because of local conditions. On the other hand, it might increase in value. It is also possible for the property to produce a revenue, as all of the buildings might not be needed for use in the business. While real estate, purchased for use in the business, is one of the fixed investments, (§ 21, ¶ 2), yet it differs from other property of this kind, in that it may show a decrease in value, even more than the wear and tear, or it may show an increase or produce a revenue. For this reason, it is better practice to keep two accounts with real estate; one to show the cost of the property, and the other to show the expense of maintaining the property, or the revenue which the property produces.

REAL ESTATE ACCOUNT.

§ 132. **The Object of this Account** is to show the cost of the property, which includes the purchase price, and any amount paid for improving it, but not for keeping it in repair. If it is necessary to put a new roof on the building, this does not increase the value of the property, but is necessary in order that the property may be used. If the original roof was made of wood, and the new roof of slate, this increases the value of the property; the difference between the cost of the wood and slate roof must be charged to the Real Estate account.

One account may be kept with Real Estate, and this account may represent the cost value of all real estate owned. As a general rule, when property is purchased for use in the business, only one account is necessary, and the term Real Estate is sufficient. If a number of pieces are owned, it is better to keep an account with each piece of property, and describe it by street number, or some other method, so the bookkeeper will know the property designated.

Debit the Account with Real Estate:

¶ 1. For the cost value of real estate on hand at the beginning of the business.

¶ 2. For the cost of all real estate purchased.

¶ 3. For the expense of securing title, etc., when this is paid by the purchaser.

¶ 4. For any improvements that increase the value of the property.

¶ 5. For carrying charges until the property becomes productive.

Credit the Account with Real Estate:

¶ 6. For the cost price of all property sold.

¶ 7. For any amounts received from the insurance company in payment for buildings destroyed.

If property is sold at a less price than the cost, the difference is charged to the Expense and Revenue account. If it is sold at a greater price than the cost, the difference is credited to this account.

¶ 8. *The Difference between the two Sides of the Real Estate Account* will show the cost value of the property owned, and is a resource. As it represents one of the fixed investments, it is listed with these on the Financial statement.

¶ 9. *To Close the Real Estate Account.* This account is not closed unless all the property has been sold, or it is desired to bring the balance down or carry it forward to a new page. In the first case, it is ruled with single and double red lines, and footed in black ink; double lines only may be used when there is but one amount on each side. In the second case, the balance is entered on the credit side, in red ink, the account ruled and footed, and the balance brought down, in black ink, on the same page, or carried forward to the new page. Illustration No. 43 shows the correct closing of the Real Estate account at the end of March.

Real Estate

191 Mch.	1		65	1000 00	191 Mch.	30		66	1000 00

Illustration No. 43. Real Estate Account.

REAL ESTATE EXPENSE AND REVENUE ACCOUNT.

§ 133. **The Object of this Account** is to show the cost of maintaining the real estate, and the amounts received for rent. It is necessary to keep an Expense and Revenue account with each piece of real estate owned, if separate accounts are kept with each property.

Debit R. E. Ex. and Revenue Account:

¶ 1. For any amount paid for maintaining the property, such as painting, papering, replacing the roof with the same kind of material, reflooring, etc., also amount paid for insurance on building.

¶ 2. For the difference between the cost and selling price, if the property is sold at less than cost.

Credit R. E. Ex. and Revenue Account:

¶ 3. For amounts received in payment for rent.

¶ 4. For the difference between the selling price and cost, if the property is sold for more than the cost.

¶ 5. *The Difference between the two Sides of this Account* shows a loss or gain; a loss if the debit side is larger, and a gain if the credit side is larger. It appears in the Profit and Loss statement as a special profit or loss, or a part of the General Administrative expense. If the real estate is purchased for use in the business, and there is no income, the difference must be listed with the expenses, as it takes the place of rent, which is a part of the General Administrative expense. If the property is not used as a home for the business, the difference is a special profit or loss.

¶ 6. *To Close the Real Estate Expense and Revenue Account.* The balance is closed into the Profit and Loss account; it is entered on the smaller side with red ink, the account is ruled with single and double red lines, footed in black ink, and the balance transferred to the opposite side of the Profit and Loss account with black ink. See illustration No. 44.

Real Estate Expense & Revenue

191 Mch.	6	Repairs	65	25	191 Mch.	30		66	200
Mch	31	Profit & Loss	14	210		31		J12	35
				235					235

Illustration No. 44. Real Estate Expense and Revenue Account.

EXERCISES IN REAL ESTATE ACCOUNTS.

The following exercises are given to illustrate both Real Estate accounts, and the student must determine the account to be debited or credited by the references. Work out the exercises on ledger paper and hand to the teacher for approval.

EXERCISE No. 35. March 1st, paid $1,000.00 for store house and lot (§ 132, ¶ 2); 6th, paid $25.00 for repairs (§ 133, ¶ 1); 30th, sold the house and lot for $1,200.00 (§ 132, ¶ 6 and § 133, ¶ 4); 31st, credited the account with rent for the month, $35.00 (§ 133, ¶ 3).

Illustrations Nos. 43 and 44 show these accounts worked out and closed.

EXERCISE No. 36. January 1st, paid $3,000.00 for real estate consisting of a house and lot at No. 416 Broadway (§ 132, ¶ 2); 1st, paid our attorney $25.00 for looking up the title (§ 132, ¶ 3); 5th, paid $26.00 for repainting the outside of the building (§ 133, ¶ 1); 7th, paid $19.00 for insurance on building (§ 133, ¶ 1); 9th, paid $12.00 for new steps (§ 133, ¶ 1); February 1st, received rent, $30.00 (§ 133, ¶ 3); 5th, paid $150.00 for a new porch as per contract (§ 132, ¶ 4); March 1st, received $35.00 rent; 5th, sold the vacant lot adjoining the one on which the building is located for $900.00; estimated cost, $600.00 (§ 132, ¶ 6, and § 133, ¶ 4); 6th, paid for repairing roof, $5.00 (§ 133, ¶ 1); April 1st, received rent, $35.00; 12th, paid for new floor, $8.50 (§ 133, ¶ 1); May 1st, received rent, $35.00; 9th, paid $125.00 for a new sidewalk (§ 132, ¶ 4); June 1st, received rent, $35.00; 6th, paid for repairing floor, $4.00 (§ 133, ¶ 1); July 1st, received rent, $35.00.

EXERCISE No. 37. At the beginning of business, July 1st, had real estate on hand valued at $3,500.00 (§ 132, ¶ 1); 19th, paid for building new warehouse per contract, $1,000.00 (§ 132, ¶ 2); 20th, paid for new roof, $150.00 (§ 133, ¶ 1); 31st, paid for insurance on building, $40.00 (§ 133, ¶ 1); 31st, credited the account with our rent, $40.00 (§ 133, ¶ 3); August 1st, received $15.00 for rent of space on second floor; 12th, paid for painting floors, $12.50; 19th, paid for installing new elevator, $800.00; 20th, received $10.00 rent for space on second floor; 30th, credited account with our rent, $40.00; October 9th, paid for new door, $9.75; 28th, paid for new sidewalk, $75.00; 30th, credited the account with $40.00, our rent; November 6th, paid for glass in the windows, $6.50; 30th, credited account with our rent, $40.00; December 31st, credited the account with our rent, $40.00; 31st, received rent for space on second floor, $15.00; 31st, sold the property for $5,000.00.

INTEREST.

§ **134. Interest is the Use of Money;** but as it is usually not considered until the money representing the value is paid or collected, it is best defined as *money paid or collected for use of money, whether paid in advance or at maturity.* To illustrate: A borrowed $100.00 from B on twelve months' time, and at the end of the year paid the $100.00 borrowed and $6.00 interest, or $106.00. The $6.00 is interest as it is money paid for the use of money. If, when A borrowed the money from B, he had received only $94.00, and agreed to pay $100.00 at the end of the twelve months, the $6.00 would have been interest just the same, because it was paid for the use of the money. It is customary with banks to collect the interest in advance. This can be done by deducting it from the face of the paper, and crediting the depositor with the proceeds, or requiring the depositor to give his check for the interest and credit him with the face of the paper. To illustrate: A borrowed $500.00 from his bank, giving his note payable in ninety days from date, *as evidence of the obligation.* The bank charges him eight per cent interest. When he presents his note for credit, he will either have to give the bank his check for $10.00 and receive credit for $500.00, or receive credit for only $490.00. The result is the same in either case, and the $10.00 is regarded as interest. Sometimes interest paid in advance is termed "Discount," but as there are other discounts to be considered in the subject of bookkeeping, it is better to consider all amounts paid for the use of money as "Interest," no matter whether the amounts are paid at the time the debt is created or at the time it is paid.

To prevent unreasonable charges for the use of money, the various states have made laws fixing the rate of interest to be collected. This is called the legal rate, and all amounts collected in excess of the legal rate are usurious. The only means of avoiding the usury law, that is, collecting more than the legal rate of interest, is to have the note made payable to a third party and endorsed by him. It then becomes negotiable, and the owner can dispose of it at any price, and the purchaser can not be held for collecting more than the legal rate.

The rate per cent charged for money is estimated for one year. Thus, a legal rate of six per cent would mean $6.00 on each one hundred dollars for a year. If the note was for a less time than this, only the proportionate part of the six dollars would be collected. Thus the interest on $100.00 at six per cent is $6.00 for one year, $12.00 for two years, $3.00 for six months, $1.50 for three months, $1.00 for two months, etc.

INTEREST ACCOUNT.

§ **135. The Object of this Account** is to keep a record of all amounts paid and received for interest, whether these amounts are paid and received at the time the debt is created or at the time it is paid. The business man borrows money in order to meet obligations contracted for the benefit of the business. He may borrow this money from the bank on his own note, or may discount notes received from customers. He may pay the interest and get credit for the face of the note, or allow the interest to be deducted from the face, and get credit for the proceeds. In either case the amount deducted is interest, because it is money paid for the use of money.

Debit the Interest Account:

¶ 1. For all amounts paid by us as interest at the time the obligation is due.

¶ 2. For all amounts paid by us as interest when paid at the time the loan is made (in advance.) This includes accumulated interest on interest-bearing notes accepted by us.

¶ 3. For all amounts deducted from notes we discount (transfer to others), which is the difference between the face value of the note and the amount we receive.

Credit the Interest Account:

¶ 4. For all amounts paid to us as interest when paid at the maturity of the obligation.

¶ 5. For all amounts paid to us as interest when paid in advance. This includes accumulated interest on interest-bearing notes transferred by us.

¶ 6. For all amounts deducted for prepaying notes which we owe, or allowed us on notes we purchase, which is the difference between the face value of the note and the amount we pay, or for which we give credit.

The above outline of debits and credits of the Interest account applies to general business transactions, and does not include special accounts made necessary on long time mortgages, bonds, etc.

¶ 7. *The Balance of the Interest Account* shows a profit or loss—a loss if the debit side is the larger, and a profit if the credit side is the larger. It appears on the Profit and Loss statement as one of the special profits or losses.

Interest

191- Mch	16		15	2 67	191- Mch	21		15	44
	31		15	57		31	Profit & Loss	4	2 80
				3 24					3 24

Illustration No 45. Interest Account.

¶ 8. *To Close the Interest Account.* The balance is closed into the Profit and Loss account at the time the ledger is closed. If the debit side is the larger, enter with red ink on the credit side as follows: The *date*, the words *Profit and Loss*, the *page* of the Profit and Loss account in the ledger, and the *amount* of the *difference*. Rule the account with single and double red lines, and enter the total of each side, between the single and double lines. Use black ink for writing the totals. If the credit side is the larger, the entry is made on the debit side, and the account ruled and footed in the same manner.

The difference is entered in the Profit and Loss account on the opposite side from which it appears in the Interest account; *use black ink.*

The account may have an inventory because there may be interest due the business which can not be collected until the paper is due. In the same way the business may owe interest on notes that are not yet due. The value of the account is affected by the inventory; a liability inventory increasing the loss, and a resource inventory increasing the gain.

EXERCISES IN INTEREST ACCOUNT.

The following exercises are given to familiarize the student with the various debits and credits affecting the Interest account. These are to be worked out on ledger paper, and handed to the teacher for approval. The amount of the interest is not given in every case. When not given, the student ascertains the interest by subtracting the two amounts given. The references are to § 135, ¶¶ 1—6.

EXERCISE No. 38. March 16, borrowed $400.00 from the bank on my note at 30 days. Gave them a check for $2.67,in payment for interest at 8%. (¶ 2.)

March 21, received check from P. A. Bancsforth for $88.09, in payment for note, $87.65, and interest on the same, 44 cents. (¶ 4)

March 31, gave the bank a check in payment of note due Dick, McMillan & Co., $229.78, and interest on same to date, 57 cents. (¶ 1.)

March 31st, the close of the fiscal period, the balance of this account is closed into the Profit and Loss account. Illustration No. 45 shows the account worked out and closed.

EXERCISE No. 39. April 1st, discounted note at the bank and gave check for $7.88, interest on the money (¶ 3).

April 27th, prepaid our note for $262.50 by check for $259.87. (The difference is the interest. ¶ 6.)

May 16th, gave note due July 5th, for $450.00, and our check for $7.50, in settlement for $450.00 note due today with interest (¶ 1).

May 27th, Robert Clark prepays his note of $200.00 by check for $197.50. (The difference is the interest. (¶ 3).

May 27th, discounted Anderson Bros.' note for $400.00 at the bank, receiving credit for $393.67, the net proceeds (¶ 3).

June 5th, prepaid our note of $500.00 by check for $482.90 (¶ 6).

June 30th, gave Borches & Co. check for $416.50, in payment of note for $412.00, and the interest on the same (¶ 1).

June 30th, when the books are closed, the balance of this account is closed into the Profit and Loss account.

EXERCISE No. 40. July 17th, gave the bank a check for $10.00, to pay discount on note (¶ 2).

July 27th, received check from Davis Bros. for $287.65, in payment for balance due, $283.27, and the interest (¶ 4).

July 31st, C. L. Jackson renewed note of $500.00 due today, giving in payment his check for $256.00, and a new note, $250.00. (The difference between the face of the new note plus the check and the face of the old note, is the interest. ¶ 5.)

August 17th, gave the bank a check for $20.00, to pay interest on the note renewed (¶ 2).

August 27th, gave Smith & Jones a check for $726.40, in payment of account due them, $718.65, and interest (¶ 1).

September 9th, received $5.60 from A. B. Day, as interest on note which he owes (¶ 4).

September 30th, received $16.65 from D. L. Morris interest due us (¶ 4).

October 27th, discounted M. B. Jacobs' note for $552.65 at the bank, and received credit for the proceeds, $549.27 (¶ 3).

November 6th, gave W. H. Davis a check for $206.50, in payment of $200.00 note due today, and interest on the same (¶ 1).

December 9th, received check from A. H. Bowers for $22.50, interest due us (¶ 4).

December 28th, borrowed $2,000.00 at the bank, and received credit for the proceeds, $1960.00 (¶ 3).

December 31st, the books are closed and the balance of this account is closed into the Profit and Loss account.

§ 136. Rule for Calculating Interest. The interest on any sum at six per cent for six days is the sum with the decimal point moved three places to the left. Thus the interest on $962.37 for six days is .96237 or 96 cents; the interest on $5,000.00 for six days is $5.00; the interest on $249.60 for six days is $0.2496 or 25 cents; the interest on $91.65 is $0.09165 or 9 cents.

Ascertain the number of days for which the interest is to be calculated, divide this number by six, and multiply the amount of money by the quotient. The result, when pointed off according to the rules in decimal fractions, will be the interest on the given amount for the given time at six per cent. To illustrate: Calculate the interest on $942.75, for 48 days, at six per cent. Move the decimal point three places to the left, multiply this amount by (48 divided by six,) 8. The result is, 754200. As there are five decimal places in the multiplicand, there must be five decimal places in the product, which gives the interest, $7.54. The fraction to the right of this is less than one-half, and is not used. If it had been one-half or more, the interest would have been $7.55. Do not drop the fraction until the final result is obtained.

When the rate of interest is not six per cent, divide the amount of the interest at 6% by six; this gives the interest at 1%. Multiply this by the given rate and the result is the interest on the given amount at the given rate. To illustrate: Calculate the interest on $368.95 for 48 days, at 8%; $368.95 with the decimal point moved three places to the left is .36895. $48 \div 6 = 8$; $.36895 \times 8 = 2.95160$ (interest at 6 %). $2.95160 \div 6 = .49193$ (interest at 1%) $.49193 \times 8 = 3.93544$ or $3.94, interest on $368.95 for 48 days, at 8%.

§ 137. Time. In practical calculations, the time is not given and must be ascertained according to the date, time of the note, maturity, etc. A note dated March 6th, and due in ninety days, is due ninety days from that date. With few exceptions, the state laws require only the date of the paper or the date it is due to be used in calculating the time. As a general rule, the date due is considered.

To ascertain the due date of a ninety-day note, dated March 6th, omit March 6th, and consider the remaining twenty-five days in March; add to this a sufficient number of days to complete the 90 days, which will include the 30 days in April, 31 days in May and 4 days in June ($25+30+31+4=90$). The best method to ascertain the due date of a paper is to subtract the day it is dated from the number of days in the month in which it is dated. Add to this amount the days in the succeeding months until the required number of days are used. The number of days in the last month is the date on which the paper is due. (Date April 16th, time 90 days; $30-16=14$; $14+31+30+14$ = July 14th.) A note dated March 6th, payable in three months, would be due June 6th, because the number of months are stated and it will be due on that same day of the month in the month the number of months in advance of it. The maturity of the note does not affect the interest calculation when interest is to be calculated for the full time of the note; but it does affect the calculation, if the note is discounted, or paid any time before its maturity. If the due date is Sunday or a legal holiday, the paper is due during business hours of the preceding or following day.

§ 138. The Face Value of a Note is the amount that will be collected at maturity. If the note does not bear interest, the face value is the amount stated in the note. If it does bear interest, the face value is the amount stated in the note, plus the interest for the full time. If a note is executed for $500.00, and due in ninety days, and no interest is mentioned, the face value of this note is $500.00, because that is the amount that will be collected; if the note states that it is with interest, at 6% for ninety days, the face value is $507.50, the amount plus the interest at 6% for ninety days. The owner of a note does not need to accept payment until it is due, hence the face value is the value of the note when it is due. The owner might accept a less amount than the face value for payment be-

fore maturity, but that does not alter the face value of the note. When a bank purchases a note, the face value is considered, and the interest calculations are made on this. The *face value* is sometimes termed the market or commercial value.

EXERCISES IN INTEREST CALCULATIONS.

The following exercises are given the student that he may be prepared to make the interest calculations required in the bookkeeping work. While the student of bookkeeping is supposed to have a knowledge of interest and discount, yet sometimes this is not sufficient. In order to successfully record the transactions, it is necessary that he be capable of making interest calculations. The student will make the journal entries for the transactions and submit them to the teacher for approval, at the same time submitting all the interest calculations required in determining the amount of the interest. The Interest account is debited or credited according to § 135, ¶¶ 1—6, and money paid, for the use of money, either in advance or at maturity, is regarded as interest. Unless otherwise stated, the interest is 6%, that is, $6.00 on each $100.00 for one year. Consider 28 days in February.

EXERCISE No. 41. March 1st, received from Young & Doyle, on account, ninety-day note dated Feb. 16th, for $265.50, less interest to maturity. (¶ 5.) See first entry in illustration No. 46.

2d, borrowed $1,000 from the bank on our ninety-day note. Received credit for net proceeds, face of note, less 8% (¶ 2). See second entry in illustration No. 46.

3d, C. H. Granger owes us $414.56. He settled in full by transferring Robert Dow's ninety-day note for $272.35, dated Jan. 16, less discount, and his thirty-day note with interest for the balance. (This note is worth $272.35 at maturity. If accepted now, the cash value will be the face of the note, less 6% interest for the time it has to run.) (¶ 5.) See third entry in illustration No. 46.

4th, we owe Donaldson Bros. $375.62. We settle the same by transferring L. D. Arnold's three-month note (Notes Receivable) for $250.00, dated Feb. 12th, less 8% discount, and our thirty-day note with interest for the difference. (¶ 3.) See fourth entry in illustration No. 46,

5th, we hold a note for $375.00, dated Feb. 12, due in four months. We discount this at the bank at 8%, and receive credit for the proceeds. (Debit, § 27, ¶ 2 and § 135, ¶ 3; Credit, § 123, ¶ 5.)

6th, we owe D. H. Addison $614.65. We make settlement as follows: Our interest-bearing note dated today and due in three months, for $200.00, W. H. Day's ninety-day note (Notes Receivable) for $300.00, dated February 28th, less discount, and our check for the difference. (Debit, § 30, ¶¶ 2, 4 and 1, and § 135, ¶ 3; Credit, § 124, ¶ 3, § 123, ¶ 6, § 27, ¶ 4.)

8th, Mays Bros. owe us $412.50. They settle this by transferring W. H. James' four-month note, $275.00, dated Jan. 3d, with interest from date, less discount, and their sixty-day note, dated today, for the balance. (Debit, §123, ¶ 2, twice, § 135, ¶ 2; credit, § 29, ¶ 5, and § 135, ¶ 6.)

9th, borrowed $1,000.00 from the bank on our note dated today, and due in four months. Gave them check for the interest, and received credit for the face of the note. (Debit, § 27, ¶ 2, and § 135, ¶ 2; credit, §124, ¶ 3, § 27, ¶ 4).

10th, we owe a note of $500.00, dated Jan. 9th, and due in six months. The holder accepts our check, less 6% interest, for the remaining time. (Debit, § 124, ¶ 1; Credit, § 27, ¶ 4 and § 135, ¶ 6.)

11th, Jones Bros. owe us $312.65. They agree to accept a sixty-day draft for this amount, and we have drawn on them through the bank. Since they have agreed to accept the draft, the bank allows us credit for the proceeds, charging 8% interest. (Debit, § 27, ¶ 2, and § 135, ¶ 3; Credit, § 29, ¶ 6.)

12th, we owe the bank $1,000.00 on a note due today. Have settled the same by giving them a new note for $500.00 due in ninety days from today, and our check for the balance and interest on the new note at 8%. (Debit, § 124, ¶ 1, for $1,000.00, and § 135, ¶ 2; Credit § 124, ¶ 3, and § 27, ¶ 4.)

13th, transferred W. H. George's ninety-day note, dated March 3d, for $214.25, to Roberts Bros., in part payment of amount due them less discount on the note at 6%. (Debit § 30, ¶ 4, and § 135, ¶ 3; Credit § 123, ¶ 6.)

15th, we owe C. C. Cring $862.45. We have a note signed by W. O. Wilhoit, dated February

16th, and due in four months with interest, for $927.42. Mr. Cring accepts this note in full settlement of our account, less 8% discount to maturity, and gives us his check for the difference. (Debit, § 30, ¶ 4; § 135, ¶ 3, and § 27, ¶ 2; Credit, § 123, ¶ 6, § 135, ¶ 5.)

16th, accepted a sixty-day draft drawn by Donaldson Bros, for $127.65, in full of account. (Debit, § 30, ¶ 3; Credit, § 124, ¶ 4; §135, ¶5.)

17th, drew draft at sixty days on D. D. Malcolm, for $425.60, in full of his account due us, and sent the draft to A. Y. Yaeger to apply on account we owe him, less discount due at maturity of draft. (Debit the one to whom the draft is sent, and credit the one on whom it is drawn.)

18th, Condon Bros. draw a sixty-day draft on us for $200.00, with the privilege of acceptance or remitting, less discount. We send them check for the proceeds. (Debit, § 30, ¶ 1; Credit § 27, ¶ 4, and § 135, ¶ 6.)

19th, we owe W. H. Good a note of $600.00 and interest on the same for four months, all of which is due today. We settle as follows: A three-month note for $200.00, which we hold against C. H. Dair (Notes Receivable), dated February 12th, less discount; our thirty-day note with interest from date for $250.00, and our check for the difference. (Debit, § 124, ¶ 1, and § 135, ¶ 1 and ¶ 3; credit, § 123, ¶ 6; § 124, ¶ 3; § 27, ¶ 4.)

20th, borrowed $250.00 from the bank on sixty days time, and gave them our check for the interest at 8%, receiving credit for the face of the note. (See reference for transaction of the 9th.)

22d, we owe W. H. Brunner & Co. $500.00. Have settled the same by transferring James Willis' three-month note for $351.76, dated February 21st, less discount, and our sixty-day note, with interest, for the balance.

23d, drew a three-day draft on Mays Bros. for $416.65, in full of account, and sent the same to C. H. Snider, to apply on account. (See explanation under transaction of the 17th.)

24th, we owe D. H. Ragland a note for $750.00, dated January 1st, and due in four months. He agrees to accept payment now, less interest at 8% to maturity, and we have given him our check for the net amount. (Debit, § 124, ¶ 1; Credit, § 27, ¶ 4, and § 135, ¶ 6.)

25th, we owe the bank a note of $2,000.00, which is due today. We have settled the same as follows: D. H. Bliss' note for $372.65, dated January 3d, and due in four months, with interest; R. H. Payne's six-month note for $600.00, dated December 6th; our three-month note for $500.00; and a check for the difference. They deduct 8% discount from the face of each of these notes. (Debit, § 124, ¶ 1, and § 135, ¶ 3; Credit, § 123, ¶ 6, twice; § 124, ¶ 3; § 135, ¶ 5, interest on note transferred; § 27, ¶ 4.)

26th, accepted a ten-day draft drawn by Donaldson Bros. in payment of invoice for $467.85, dated the 24th, terms, net, 60 days. They allow 6% interest for sixty days, and draw the draft for the amount of invoice less the interest. (Debit, § 30, ¶ 3; Credit, § 124, ¶ 4; § 135, ¶ 6.)

27th, borrowed $1,000.00 from the bank on our note of ninety days, and received credit for the proceeds, less 8%. (Debit, § 27, ¶ 2; § 135, ¶ 2; Credit, § 124, ¶ 3.)

29th, we hold a note for $722.65, signed by W. H. Crouch, dated December 15th, due in five months, with interest from date. We discount this at the bank, and receive credit for the proceeds, less 8% discount. (Debit, § 27, ¶ 2 and § 135, ¶ 3; Credit, § 123, ¶ 5, and § 135, ¶ 5, interest on note transferred.)

30th, James Smithson owes us a note for $526.47, dated December 9th, and due in six months. He wants to prepay this, and we have accepted his check, less 8% interest for the remaining time. (Debit, § 27, ¶ 2; § 135, ¶ 3; Credit, § 123, ¶ 4.)

31st, we owe James Robinson a note of $400.00, dated December 31st, and due in three months, with interest from date. We hold his note for $216.55, dated February 9th, and due in ninety days. He agrees to accept this note, less discount at 8% to maturity, and our check for the balance in settlement, and we have accepted his proposition. (Debit, § 124, ¶ 1; § 135, ¶ 1; § 135, ¶ 3; Credit, § 123, ¶ 4; § 27, ¶ 2.)

§ 139. **Compound Journal Entries.** A transaction may affect more than two accounts; that is, two kinds of property may be purchased, and only one given in exchange for it, or one kind of property, purchased and two or more kinds given in exchange for it. This same principle applies with services. Thus a journal entry may be made up of one or more debits, and one or more credits. No matter how many debits and credits there may be, the total of the debits must equal the total of the credits; because the value of the property or services received always equals the value of the services or property exchanged. Where there are two or more amounts in either the debit or credit entry, they should be added, and the total written just beneath the last entry in small pencil figures.

March 1, 191

Notes Receivable	265	50		
Young Bros.			262	10
Interest			3	40
Rec'd their 90-day note dated Feb. 16 less discount, on account.				
2				
Cash	980			
Interest	20			
Notes Payable			1000	
Discounted our 90-day note dated to-day, less 8% discount				
3				
Notes Receivable	272	35		
Notes Receivable	144	21		
C. H. Granger			414	56
Interest			2	
Received Robert Dow's 90-day note dated Jan. 16 less discount and C. H. Granger's 30-day note dated today, in full of account.				
4				
Donaldson Bros.	375	62		
Interest	2	88		
Notes Receivable			250	
Notes Payable			128	50
Transferred L. D. Arnold's 2-mo. note dated Feb. 12, less discount, and gave our 60-day note dated today in full of account.				

Illustration No. 46. Compound Journal Entries.

If the entries in the journal do not balance, then the ledger will not balance, because the debit amounts in the journal are posted to the debit side of the ledger, and the credit amounts in the journal to the credit side of the ledger. Some bookkeepers foot each page in the journal to prove that the debits and credits are correct. This is the best practice, and the student should follow this plan in all his work. Illustration No. 46 shows some of the forms of compound journal entries. These are the same as the first four entries in exercise No. 41.

QUESTIONS.

1. Define the purchases book. (§ 130.)
2. Describe the method of posting from the purchases book. (§ 130, ¶ 1.)
3. What account is debited at the end of the month with the total of the purchases book? (§ 130, ¶ 1.)
4. Define real estate. (§ 131.)
5. Define the Real Estate account. (§ 132.)
6. If more than one piece of property is owned, is it better to keep one Real Estate account or an account with each piece of property? (§ 132.)
7. Distinguish between real estate and other property purchased for use in the business. (§ 131.)
8. Why is it best to keep one account with the value of real estate or each piece of real estate and another with expense and revenue?
9. Name the five special debits of the Real Estate account. (§ 132 ¶¶ 1—5.)
10. Name the two special credits. (§ 132, ¶¶ 6, and 7.)
11. What does the difference of the Real Estate account show? (§ 132.)
12. What does it represent on the Financial statement? (§ 132.)
13. How is the Real Estate account closed? (§ 132.)
14. Define the Real Estate Expense and Revenue account. (§ 133.)
15. Name the two special debits. (§ 133, ¶ 1, ¶ 2.)
16. Name the two special credits. (§ 133, ¶¶ 3 and 4.)
17. What does the difference show? (§ 133.)
18. What does it represent on the Profit and Loss statement? (§ 133.)
19. When is it a profit? When a loss? (§ 133.)
20. How is it closed? (§ 133, ¶ 6.)
21. Define interest. (§ 134.)
22. Define the Interest account. (§ 135.)
23. Name the three special debits. (§ 135, ¶¶ 1—3.)
24. Name the three special credits. (§ 135, ¶¶ 4—6.)
25. What is the difference between interest and discount? (§ 134.)
26. What does the balance of the Interest account show? (§ 135.)
27. What does it represent on the Profit and Loss statement? (§ 135.)
28. When does it show a loss? A gain? (§135.)
29. How is the account closed? (§ 135, ¶ 8.)
30. Give the rule for calculating interest at 6 per cent. (§ 136.)
31. Give the rule for calculating interest when the rate is more or less than 6 per cent. (§ 136.)
32. Describe the method of ascertaining the time for which the interest is to be calculated. (§ 137.)
33. What is the face value of a note? (§ 138.)
34. Define a compound journal entry. (§ 139.)

§ **140. Trial Balance, March 31st.** Since all debts due the business for property sold on time have been collected, and all outstanding obligations paid, there are no personal accounts on this Trial Balance. It will be made of all open accounts on the ledger, which consist of W. H. Goodwin Capital, Cash balance (Cash book), Merchandise, Expense, Furniture and Fixtures, Real Estate Expense and Revenue, and Interest. All other accounts in the ledger should be ruled, and if the student has followed instructions, they will be. Use the total of each side of all accounts except Cash. Read § 66 for further information.

§ **141. Financial Statement, March 31st.** As explained in § 79, the Financial statement shows all the resources and liabilities, and the present capital. As there is only one resource, which is the cash on hand, and no liabilities, it is evident that the Cash balance represents W. H. Goodwin's interest in the business. The net gain for March is the difference between his capital March 1st, and his present capital (the Cash balance). Make this statement in the same form as shown in illustration No. 39. As there are no liabilities, write the word "Liabilities," in the center and on the line below it write "All Obligations Paid."

§ **142. Profit and Loss Statement, March 31st.** As explained in § 80, ¶ 1, the Trading statement is to be made first. The total sales of merchandise is represented by the credit side of the Merchandise account; the cost is represented by the inventory on hand at the beginning of March, and the merchandise purchased during the month. There being no inventory, the total of these two amounts (the debit side of the Merchandise account), equals the cost of goods sold. The credit side shows the returns from sales. The difference is the gain. The Real Estate Expense and Revenue account shows a profit, because the property sold for more than it cost. The losses are Expense Furniture and Fixtures, and Interest. The difference between the three losses and the two gains will be the net gain, which is the same as the difference between the present capital at the beginning of March, and the cash on hand. See illustration No. 40.

§ **143. Closing the Ledger, March 31st.** As explained in § 85, closing the ledger is closing all accounts used in making the Profit and Loss statement and the Capital account. There being no inventories, each account on the Profit and Loss statement is ruled and footed, as explained in § 87, ¶¶ 1 and 2. The accounts are closed into the Profit and Loss account and this is closed into W. H. Goodwin, Capital. His account is closed, and the present capital brought down, as explained in § 34, ¶ 10. After all the accounts are closed, Mr. Goodwin's account will be credited with the same amount as cash is debited. Read "To Close," in §§ 31—34, 122, 132, 133, 135, and note illustrations Nos. 4, 5, 6, 7, 36, 44, and 45.

§ **144. Proof Sheet, March 31st.** It is not necessary to take a Proof Sheet in this case, because there are only two accounts; one shows the amount with which W. H. Goodwin is credited, and the other the amount with which Cash is debited. This is a proof of the statement, that after the ledger is closed, the difference between the total resources and liabilities is the same as the present capital of the investor.

JOURNAL ENTRIES AND STATEMENTS.

EXERCISE No. 42. 1. Discounted at bank our sixty-day note, dated today, for $1,000.00, rate 8%. Received cash for proceeds. (Debit, § 27, ¶ 2; § 135, ¶ 2; credit, § 124, ¶ 3.)

2. J. G. Miller prepays his note for $427.85, giving us his check for $419.37, the proceeds. (Debit, § 27, ¶ 2; § 135, ¶ 3; Credit, § 123, ¶ 4.)

3. Paid by check our note for $500.00, due at the bank today. (Debit, § 124, ¶ 1; credit, § 27, ¶ 4.)

4 Drew thirty-day draft on A. D. Appleton for $650.00, and sent it to Inman Bros., who credit us with the amount, less 6% interest for thirty days. (Debit the one to whom the draft is given, and § 135, ¶ 3; credit the one on whom it is drawn.)

5. M. M. Newcomer transfers to us D. D. Miller's note for $186.47, on account, which we accept, less $3.64 discount. (Debit, § 123, ¶ 2; credit, § 29, ¶ 5, and § 135, ¶ 6.)

6. We transfer D. D. Miller's note (see No. 5) to Arnold Bros., on an account we owe them, also give them our note due in sixty days, for $361.27, in full of account.

7. We hold a note (Notes Receivable) against R. W. Ritter for $256.81, which is not due, and he holds a note (Notes Payable) for $500.00 against us, which is due today. We pay our note by giving him our check for $250.00 and his note, allowing him $6.81 discount for prepaying. (Debit, § 124, ¶ 1; § 135, ¶ 3; Credit, § 27, ¶ 4; § 123, ¶ 6.)

8. Day and Joiner owe us an account of $892.76. They settle the same by transferring A. Y. Burrows' note for $269.41, less $4.86 discount, an account against Robert McFarland for $125.30, their check for $300.00, and their note for the balance. (Debit, § 123, ¶ 2; § 29, ¶ 2; § 27, ¶ 2; § 123, ¶ 2; Credit, § 29, ¶ 4 and ¶ 5; § 135, ¶ 6.)

9. Discounted at the bank M. D. Angel's note (Notes Receivable) for $1,250.00, due in ninety days from today, rate of discount 6%. Received credit for the proceeds. (Debit, § 27, ¶ 2; § 135, ¶ 3; Credit, § 123, ¶ 5.)

10. Paid amount we owe Woodruff & Co., by transferring to them A. D. Ijam's note (Notes Receivable), for $265.96, less $4.28 discount, our check for $369.86, and our ninety-day note for balance, $379.14. (Debit, § 30, ¶ ¶ 1, 2 and 4; § 135, ¶ 3; Credit, § 123, ¶ 6; § 124, ¶ 3; § 27, ¶ 4.)

11. John R. Hood began the retail coal business with the following resources: Cash on hand, $561.25 (§ 27, ¶ 1); coal (merchandise) in stock (§ 31, ¶ 1), $681.46; scales and office fixtures, valued at $500.00 (§ 122, ¶ 1); account due from A. D. Bearden, $165.20 (§ 29, ¶ 1); account due from A. L. Anderson, $206.85 (§ 29, ¶ 1). He owes Jellico Coal Co., $268.85 (§ 30, ¶ 9); Coal Creek Coal Co., $187.65 (§ 30, ¶ 9); note at the bank, $200.00 (§ 124, ¶ 2).

NOTE—Debit the resources and credit the liabilities. The investor is credited with the difference. Note references.

12. V. C. Rawlins began the retail shoe business with the following resources: Cash in bank, $1,268.86; Merchandise on hand, $2,541.90; accounts as follows: J. C. Smith, $14.86; W. N. Dodson, $26.40; John Whitfield, $41.80; Daniel Cunningham, $32.55; David Wolverton, $13.90; O. N. Warson, $9.45; C. E. Elliot, $16.45; a note for $337.65, with interest, signed by Robert Gilbert, due June 16th; (§ 123, ¶ 1), interest on same, $4.65 (§ 135); 4 shares First National Bank stock, valued at $135.00 per share. He owes a note at the bank, due July 14th, for $1,500.00; accumulated interest on the same, $36.40 (§ 135). Accounts as follows: Boston Shoe Co., $586.91; Smith Bros. & Co., $291.46; Davis, Chumley Shoe Co., $696.41. (Debit First National Bank Stock for the value of stock invested.)

13. Davis & Co. owe Arnot, Mahew & Co. an account of $946.95, which is due. They wish to settle the same by a sixty-day draft on C. W. Hayden, who owes them $1,286.41. Arnot, Mahew & Co. agree to accept the draft in settlement of the account, provided it is drawn for a sufficient amount that when discounted at the bank at 6%, the proceeds will equal the amount of the account. Davis & Co. instruct their bookkeeper to draw the draft on C. W. Hayden for a sufficient amount that when discounted at the bank at 6% for sixty days, the proceeds will equal $946.95, and to send this draft to Arnot, Mahew & Co., who will present it to C. W. Hayden for acceptance.

To ascertain the amount of the draft, calculate the interest on one dollar for sixty days, deduct this from one dollar, and divide $946.95 by this amount. Make the entry that the bookkeeper for each of the three parties would make on his books.

Davis & Co. would debit the person to whom the draft was sent for the amount they owed, and Interest for the interest on this for sixty days; they would credit the party on whom the draft is drawn.

Arnot, Mahew & Co. would debit Notes Receivable for the face of the draft, and credit the person from whom they received the draft, and Interest.

C. W. Hayden would debit the firm who drew the draft on him and credit § 124, ¶ 4.

14. The following are the facts used by Oscar Dunn, the bookkeeper for M. A. Dance, in making the statements of the business July 31st: Trial Balance. M. A. Dance, Capital, Dr. $621.35, Cr. $5,000.00; Cash, Dr. $1,491.78; Mdse., Dr. $7,681.42, Cr. $7,041.32; (The debit side represents the inventory January 1st, $2,462.97, and purchases for the fiscal period, $5,218.45). Expense, Dr. $837.65; Furniture and Fixtures, Dr. $681.93; Interest, Dr. $37.42, Cr. $9.65; Real Estate, Dr. $950.50; Real Estate Expense and Revenue, Dr. $36.41, Cr. $152.90; Notes Receivable, Dr.

$296.48; Notes Payable, Cr. $500.00; Union Match Co., Cr. $87.65; Davis Bros. & Co., Cr. $121.65; Donaldson, Bros., Cr. $65.82; J. L. Martin, Dr. $114.96; C. F. Dobson, Dr. $62.81; Johnson Bros., Cr. $87.96; Daniel Foust, Dr. $108.13; T. J. Phillips, Dr. $146.11.

INVENTORIES. Merchandise, $2,756.75; Furniture and Fixtures, $625.00.

Make the Financial, and Profit and Loss statements. Read § 79, ¶¶ 1—4, and § 80, ¶¶ 1—5. See illustrations Nos. 39 and 40.

15. We owe a note at the bank which is due, amount $5,000.00. In payment of same, we transfer Oliver Bros.' note (Notes Receivable) for $1,687.95, less 39 days discount, at 6%; our note due in ninety days, for $3,000.00, less 6% discount; and our check for the balance. (Debit, § 124, ¶ 1; § 135, ¶ 3; Credit, § 123, ¶ 6; § 124, ¶ 3, and § 27, ¶ 4.)

16. Condon Bros. owe Crim & Johnson $1,965.85. D. L. Admire owes Condon Bros. $2,500.00. Condon Bros. draw a ten-day draft on D. L. Admire, in favor of Crim & Johnson, for the amount ($1,965.85) they owe Crim & Johnson, and send the draft to Crim & Johnson, who have it accepted by D. L. Admire. Make the journal entry each would make. See note under No. 13. The entries are the same, except there is no interest.

17. Owens & Co. owe Simpson & Son, on account, $3,687.47. They pay this by transferring O. A. McDonald's note (Notes Receivable) for $850.00, less 67 days interest at 6%; give their note for $1,000.00, due in 30 days, no discount, and their check for the balance.

Make the journal entry for both Owens & Co. and Simpson & Son.

18. D. owes E $721.65. F owes D an amount greater than this. D draws at sight on F for $721.65, and sends the draft to E. E presents the draft to F, who pays it by taking a receipt from E for $375.87, E owing him this amount, and giving E a check for the balance.

Make the entry for D, E and F. The student will note that D has nothing to do with the transaction between E and F, as the settlement is satisfactory with E.

19. R. L. Young, a retail dry goods merchant, makes a statement of his business July 1st, which is as follows: RESOURCES: Cash in bank, $561.27; Merchandise, per inventory, $3,268.97; Notes Receivable (Notes on hand), $397.65; Notes Payable (Notes due the bank), $3,000.00; Furniture and Fixtures (show cases, shelving, etc., on hand), $600.00; Accounts Payable (due wholesale merchants), $2,961.27; Accounts Receivable (due from customers), $2,461.25. He sells the business to N. C. McFall, at the full value, as shown by the statement. Mr. McFall wishes to open new books and keep them by double entry. As he does not buy the cash, he decides to put in $1,000.00, which amount is deposited to his credit in the bank. Make the opening entry.

NOTE—Debit cash for $1000.00 and all the other resources for their face value. Credit all the liabilities and Mr. McFall for the difference between the resources and liabilities.

20. R. C. Bookmeyer, bookkeeper for M. H. Lockyear, makes a statement of the business December 31st. The following are the facts used: TRIAL BALANCE: M. H. Lockyear, Capital, Dr. $350.00, Cr. $5,000.00; Cash, Dr. $2,986.41; Mdse., Dr. $6,123.15, Cr. $6,230.54; (The debit side of the Merchandise account represents the inventory at the beginning of the fiscal period, $2,103.10, and the purchases for the period, $4,020.05.) Oak Street Property, Dr. $1,600.00; Oak Street Property Expense and Revenue, Dr. $81.96, Cr. $481.95; Expense, Dr. $729.65; Furniture and Fixtures, Dr. $841.32; Notes Receivable, Dr. $918.35; Notes Payable, Cr. $1,918.35. As he does a cash business, there are no Personal accounts. INVENTORIES: Merchandise, $2,225.50; Furniture and Fixtures, $800.00.

Make the Financial, and Profit and Loss statements; transfer the accounts, as shown on the Trial Balance, to the ledger, and close the ledger, using the Profit and Loss statement as a guide. Take a Proof Sheet to ascertain if the ledger is closed correctly. Read § 79, ¶¶ 1—3; § 80, ¶¶ 1—5; §§ 86—90. See illustrations Nos. 39, 40 and 41.

GENERAL REVIEW QUESTIONS.

1. What book of original entry was used in January?
2. What two new books of original entry were introduced in February?
3. What one book of original entry was introduced in March?
4. What one book of complete entry has been used in January, February and March?
5. Why is the ledger designated as a book of complete entry?
6. When transactions are being recorded in the purchases book, sales book, journal and cash book what is the order of posting?
7. What account in the ledger is debited for the total of the purchases book?
8. What account in the ledger is credited for the total of the sales book?
9. Is it necessary to keep a Cash account in the ledger when the cash book is kept?
10. Can you give any good reason why a Cash account should be kept under the conditions mentioned in No. 9?
11. When one Cash account is kept in the ledger are the totals of the debit and credit sides of the cash book posted?
12. Name some of the advantages of the sales book.
13. Name some of the advantages of the purchases book.
14. Name some of the advantages of the cash book.
15. Describe the method of proving cash.
16. How does the bookkeeper know that his cash is in balance?
17. Describe the method of depositing money in the bank.
18. Describe the method of writing a check.
19. Describe the method of keeping an account with the bank.
20. Name three kinds of endorsements.
21. When a part payment is made on a note, how is it shown?
22. Why is it better to write a receipt on the back of the note than to give the payer a receipt for the payment?
23. Define the Financial statement.
24. Define the Profit and Loss statement.
25. Define the Trading statement.
26. How does the bookkeeper know that the facts shown by these three statements are correct?
27. When is the ledger closed?
28. Define "Current Fiscal Period."
29. How often is the ledger closed?
30. What is the object of the Proof Sheet?

PART I.

RETAIL GROCERY BUSINESS.

Before recording any of the transactions given below, the student should follow directions given on the direction card enclosed with the blank books. When these instructions are completed, he should write his name on the outside of the front cover of the blank books and page each.

MEMORANDUM OF TRANSACTIONS FOR JANUARY.

1. TRANSACTION. W. H. Goodwin invested $2,000.00 in the retail grocery business. You are employed as bookkeeper at a salary of $25.00 per month. You are to make a record of each transaction. From this record you must be able to determine who owes Mr. Goodwin, whom he owes, the amount of merchandise bought and sold, the cash received and paid out, and the running expenses of the business.

ENTRY. You are now ready to make the entry in the journal for the transaction just mentioned, the investment of your employer.

Proceed as follows:

1st. Open your journal at the first page, and write on the blue line above the heavy line, "the name of the city in which your school is located, and Jan. 1, 191..." See illustration No. 13.

2d On the first blue line beneath the heavy line, beginning at the vertical red line at the left, write the word "Cash" (§ 27, ¶2), and on the same line, in the first money column, write "2,000," which is the amount of money invested.

3d. On the next blue line, beginning at the vertical blue line on the left, write "W. H. Goodwin, Capital," (§ 34, ¶ 5), and in the second money column write "2,000," the amount with which Mr. Goodwin is credited.

4th. On the next blue line, beginning at the left, write an explanation of the entry, which should be, "Investment at the beginning of the business."

This completes the entry for the first transaction, which is the investment of the proprietor. See first entry in illustration No. 13.

There are four steps necessary to enter a transaction: 1st, the *date;* 2d, the *name* of the account which represents the *property* received, the *service* rendered, or the *person* who receives something and the *amount;* 3d, the *property* given in exchange for the service, or the *person* who gave the property to the business, and the *amount;* 4th, an *explanation* of the entry, so that the auditor will understand why the accounts mentioned are debited and credited. The latter is very important, because every bookkeeper should keep his books so that they could be intelligently audited, and the more explicit he makes his explanations, the easier it is for the auditor to determine the correctness of his work.

QUESTIONS. What account is debited? (§ 27, ¶ 2.) Credited? (§ 34, ¶ 5.)

TO THE STUDENT. Illustrations are given in the text for all the work at the beginning; these show the correct form of the transaction or account. You are expected to refer to these when necessary, but do not copy them; it will do you no good and cause you trouble when you have work that is not illustrated. Each illustration is numbered in consecutive numbers, beginning with No. 1. These illustrations are referred to by numbers, and not the page in the text, unless specially mentioned.

In the same way all of the important information in the text is described by sections (designated by the symbol §), each of which is numbered. When reference is given, it is to the section number and not the page number. If a section (§) contains several important paragraphs (¶), reference is made to the section (§) number and paragraph (¶) number. Thus, § 29, ¶ 6, refers to an important credit described in section 29, paragraph 6.

2. TRANSACTION. Bought of Borches & Co., on account, merchandise per invoice of this date, $77.30.

ENTRY. There are four steps necessary: 1st, the *date*, which is written on the next vacant blue line in the center of the page; 2d, the *name* of the account debited (§ 31, ¶ 2), which is written at the left on the blue line below the date, and the *amount*, which is written in the first (debit) money column on the same line; 3d, the *name* of the account credited (§ 30, ¶ 10), which is written on the next blue line below, beginning at the vertical blue line at the left, and the *amount*, which is written on the same line and in the second (credit) money column; 4th, the *explanation* of the entry, which is the information for the auditor or any person who may wish to verify the correctness of your bookkeeping. The second entry in illustration No. 13 shows the above entry as it should appear in your journal.

QUESTIONS. What account is debited? (§ 31, ¶ 2.) Credited? (§ 30, ¶ 10.)

What is the rule for determining the accounts debited and credited when property is purchased on time? (§ 42.)

3. TRANSACTION. Bought of Kaiser Bros., on account, merchandise per invoice received this date, $134.95.

ENTRY. This entry is the same as the one you made for the transaction of Jan. 2, with the exception of the name of the person and the amount. See preceding instructions.

QUESTIONS. What account is debited? (§ 31, ¶ 2.) What account is credited? (§ 30, ¶ 10.) Why? (§ 42.)

4. TRANSACTION. Paid $20.00 cash, city and state license for one year.

ENTRY. Read Rule 6 (§ 46), then make the entry in your journal exactly as the entry for Jan. 4, illustration No. 13. Always make the entry without referring to the illustration if you can, but be sure you understand the transaction.

QUESTIONS. To which class of transactions does this belong? (§ 14.) What account is debited? (§ 32, ¶ 1.) What account is credited? (§ 27, ¶ 3.) What is the rule for determining the accounts affected when the transaction involves an exchange of property for services? (§ 46.) Have you as much cash on hand now as you had before this transaction was made? What have you to show for it? What is license? (§ 58.)

TRANSACTION. Sold A. R. Jennings, on account, 11 lbs. Arbuckle Coffee at 20c; 50 lbs. Granulated Sugar at 6c; 25 lbs. Brown Sugar at 5c; 60 lbs. Bacon at 13c.

When the date is not given, it is the same as that above.

ENTRY. Read rule 3 (§ 43). then make the entry in your journal exactly like the fifth entry in illustration No. 13. Note very carefully the method of recording this class of transactions, that you may make those which follow without referring to the illustration.

QUESTIONS. What account is debited? (§ 29, ¶ 2.) What account is credited? (§ 31, ¶ 5.) When the transaction involves the exchange of property for credit, what is the rule for determining the accounts to be debited or credited? (Rule 3, § 43.) Have you as much merchandise now as you had before the transaction was made? What have you to show for the value of the goods sold? When may we demand payment for the amount Mr. Jennings owes us? (§ 57).

5. TRANSACTION. Bought of J. Allen Smith & Co., for cash, flour per invoice of this date, $192.00.

ENTRY. Read rule 1 (§ 41), then enter in your journal exactly like the sixth entry in illustration No. 13.

QUESTIONS. To which class of transactions does this belong? (§ 9.) What account is debited? (§ 31, ¶ 2.) What account is credited? (§ 27, ¶ 3.) When property (cash) is exchanged for property (merchandise), what is the rule for determining the accounts debited and credited? (Rule 1, § 41.)

6. TRANSACTION. Received $30.00 for sundry cash sales to date.

ENTRY. Read rule 1 (§ 41), then enter in your journal the same as the last entry in illustration No. 13.

QUESTIONS. To which class of transactions does this belong? (§ 9.) What is the rule for determining the accounts to be debited and credited? (Rule 1, § 41.) What account is debited? (§ 27, ¶ 2.) Credited? (§ 31, ¶ 5.) Distinguish between this transaction and the one immediately preceding it. Was anything made by this transaction? If so, do the books show it?

TRANSACTION. Paid Borches & Co. $77.30 in full of account.

ENTRY. Read rule 4 (§ 44), then enter in your journal the same as the first entry in illustration No. 14.

QUESTIONS. To which class of transactions does this belong? (§ 12.) When we pay others money we owe them, what rule is used to determine the accounts debited and credited? (Rule 4, § 44.) Has the value of the property of the business increased by the transaction? Why? Are you satisfied with your progress, and do you think you understand the work well enough to proceed?

8. TRANSACTION. Sold the Central Hotel, on account, 5 brls. Roller King Flour at $5.10; 3 brls. White Lily at $6.25; 3 Hams, 45 lbs., at 13c; 100 lbs. Granulated Sugar at 6c; 25 scks. salt at 5c.

ENTRY. Read rule 3 (§ 43), and make the entry in your journal the same as the second entry in illustration No. 14.

QUESTIONS. To which class of transactions does this belong? (§ 11.) What is the rule for determining the accounts to be debited and credited? (Rule 3, § 43.) Why is the Central Hotel debited? (§§ 29. ¶ 2.) Why is Merchandise credited? (§ 31, ¶ 5.) Did Mr. Goodwin make anything by this transaction? Is it shown on the books? How? What have you learned from this transaction?

9. TRANSACTION. Received $10.00 from A. R. Jennings to apply as part payment of the amount he owes us.

ENTRY. Read rule 5 (§ 45), then make the entry in your journal the same as the third entry in illustration No. 14,

QUESTIONS. To which class of transactions does this belong? (§ 13.) Why is Cash debited? (§ 27, ¶ 2.) Why is Mr. Jennings credited? (§ 29, ¶ 4.) When a customer pays a part or all he owes, what is the rule for determining the accounts to be debited and credited? (§ 45.)

10. TRANSACTION. Bought of Hazen & Lotspeich, on account, merchandise per invoice of this date, $228.60.

ENTRY. Read rule 2, (§ 42), then make the entry in your journal the same as the fourth entry in illustration No. 14.

QUESTIONS. What is the rule for determining the accounts debited and credited? (Rule 2, § 42.) What account is debited? (§ 31, ¶ 2.) What account is credited? (§ 30, ¶ 10.)

11. TRANSACTION. Sold A. R. Jennings, on account, 6 doz. canned Peaches at $1.35; 5 doz. canned Tomatoes at $1.10; 3 cans, 155 lbs., Lard, at 13c; 2 brls. White Lily Flour at $6.25; 61½ lbs. Bacon at 13c.

ENTRY. Be sure your calculations are correct, then enter in your journal the same as the fifth entry in illustration No. 14.

QUESTIONS. To which class of transactions does this belong? (§ 11.) What account is debited? (§ 29, ¶ 2.) What account is credited? (§ 31, ¶ 5.) What is the rule for determining the debits and credits? (Rule 3, § 43.)

12. TRANSACTION. Received from the Central Hotel $30.00, in part payment of the bill sold them on the 8th.

ENTRY. Note sixth entry in illustration No. 14 for form, and enter as instructed in rule 5, § 45.

QUESTIONS. Apply the questions given on Jan. 9th, as that transaction is of the same nature.

13. TRANSACTION. Received $40.00 for sundry cash sales to date.

ENTRY. This entry is similar to the first on Jan. 6th, except the amount, and should be entered the same.

QUESTIONS. To which class of transactions does this belong? (§ 9.) What is the rule for determining the accounts to be debited and credited when one kind of property is exchanged for another? (Rule 1, § 41.) What account is debited? (§ 27, ¶ 2.) What account is credited? (§ 31, ¶ 5.)

TRANSACTION. Paid Kaiser Bros. $100.00 on account.

ENTRY. This transaction is of the same nature as the second one of Jan. 6th. The entry is the same.

QUESTIONS. When money is paid our creditors to apply on account, what is the rule for determining the accounts affected? (Rule 4, § 44.) Why is Kaiser Bros.' account debited? (§ 30, ¶ 1.) Why is Cash credited? (§ 27, ¶ 3.)

TRANSACTION. Sold M. A. Johnson, on account, 3 brls. Roller King at $5.10; 3 brls. White Lily at $6.25; 1 can Lard, 50 lbs., at 13c; 4 Hams, 79 lbs., at 15c.

ENTRY. This is the fourth transaction of this kind, and you should understand what to do and how to do it without further reference; but in case you do not, do not be ashamed to own it.

QUESTIONS. Apply the questions and read the references given in the instructions of Jan. 4th.

TO THE STUDENT. If Mr. Goodwin should ask you for the amount due from any one of the customers or the history of any account, you would have to go over all of the transactions recorded in the journal to answer his question. To answer this question readily, it is necessary to transfer (post) all of the amounts in the journal to the debit or credit side of the accounts in the ledger. Before posting, it might be well to make a list of the four sales which you have recorded in your journal, showing the name of the person to whom the sale was made, the amount and also the total of the four sales. Have this approved by the teacher. When this has been done, you are ready to begin the posting.

Preparatory to doing this, open accounts in the ledger as follows:

At the top of page 1 write, "W. H. Goodwin, Capital;" at the top of page 2, "Cash;" at the top of page 3, "Merchandise;" at the top of page 4, "Expense;" in the middle of page 4, "Profit and Loss." Divide page 5 into three equal parts and draw a red line on the blue line which is one-third the distance from the top, and on the blue line which is one-third the distance from the bottom. Draw these lines all the way across the page, and on the horizontal blue line. Illustration No. 16 shows the form, but you will have more space between the red lines. At the top of page 5 write "Borches & Co."; on the first red line, which is one-third the distance from the top, "Kaiser Bros.;" on the next red line, "A. R. Jennings." Divide page 6 in the same manner, and at the top write "Central Hotel;" on the first red line, "Hazen & Lotspeich;" on the second red line, "M. A. Johnson." Write the name of the account so that the beginning and the end will be the same distance from the left and right sides of the page. Those written at the top of the page must be placed on the light blue line; the others on the page on the red lines as instructed. See illustrations Nos. 15 and 16.

You are now ready to post the various items from the journal to the ledger. You will find detailed instructions for doing this in §§ 60 and 61. If you can not understand the explanation, get your teacher to explain them. When you rule accounts, follow instructions in § 62. Prove cash as instructed in § 64. Your Cash account should be the same as that in illustration No. 15.

When you have completed posting, present your books to the teacher for approval. After the teacher has approved them, proceed with recording the transactions.

15. Bought of Borches & Co., on account, merchandise per invoice of this date, $246.00.

Enter in the journal, using the other entries of the same nature as models. Apply rule 2, § 42.

16. Sold Imperial Hotel, on account, 8 Shoulders, 184 lbs., at 10c; 3 cans Lard, 160 lbs., at 13c; 4 doz. canned Peaches at $1.35; 4 doz. canned Blackberries at $1.20.

Read rule 3 (§ 43), and enter in your journal; use same form as in other transactions of this nature (illustrations 13 and 14). Be sure your calculations are correct. If this explanation is not clear enough, apply to your teacher for additional help.

Apply questions and read references given in the instructions of the second entry for January 4th.

17. Bought of Lake View Creamery, on twenty days' time, merchandise per invoice of Jan. 14th, $28.00.

Determine from rule 2 (§ 42), the accounts affected and enter the transaction in your journal, using previous entries of the same nature as models. In the explanation column write "20 days" instead of "on account."

You have had a number of transactions of this nature and should experience little trouble in making a record of them hereafter.

18. Received of M. A. Johnson, $35.00 to apply on account.

Read rule 5 (§ 45), and enter in the journal; use the same form as in other transactions of this nature (illustrations 13 and 14).

Be sure that the information given is sufficient for the auditor. Make it as brief as possible, but do not let brevity interfere with clearness. The successful bookkeeper recognizes the importance of a thorough explanation. Those given in the transactions recorded in illustrations Nos. 13 and 14 are sufficient. See that your explanations correspond with these.

19. Sold A. C. Williams, on account, 3 brls. Roller King at $5.10; 2 brls. White Lily at $6.25; 10 lbs. Creamery Butter at 35c; 5 bu. Meal at 60c; 4 bu. Beans at $2.00.

Read rule 3 (§ 43), and enter in your journal; use the same form as in other transactions of this nature.

20. Paid Kaiser Bros. the balance due them.

Refer to Kaiser Bros.' account in the ledger to ascertain the correct amount. Read rule 4 (§ 44), and enter in the journal; use the same form as in other transactions of this nature.

21. Received $50.00 for sundry cash sales to date.

Read rule 1 (§ 41), and enter in the journal; use the same form as in other transactions of this nature.

22. Sold R. G. Mathews, on account, 5 doz. canned Peaches at $1.35; 1 doz. canned Blackberries, $1.20; 4 doz. canned Tomatoes at $1.10; 1 brl. Roller King, $5.40; 3 bu. Beans at $2.10.

Enter the transaction in the journal as usual. Be sure your calculations are correct before entering, and thus avoid having to correct errors.

When in doubt as to the accounts affected by a transaction, refer to the rules, some of which are sure to cover the case. Consult your teacher regarding points not made clear.

23. Bought of J. Allen Smith & Co., at 10 days, merchandise per invoice of this date, $197.10.

TO THE STUDENT. Do you understand the work you are going over? If not, do not hesitate to ask for explanation from your teacher. Are your books neat in appearance and correct in form? Are you keeping a blotter under your hand, as instructed?

24. Received $15.00 from the Central Hotel, in part payment of their account.

Paid Hazen & Lotspeich $125.00 on the account we owe them.

25. Sold Imperial Hotel, on account, 5 brls. White Lily at $6.60; 5 brls. Roller King at $5.25; 4 cans Lard, 160 lbs., at 13c.

While the references are not given in every case, it is presumed that you will look them up when in doubt about an entry.

26. Received $4.25 from A. R. Jennings in full of balance due on bill sold him Jan. 4th.

Sold C. L. Loyd, on account, 25 lbs. Arbuckle Coffee at 20c; 50 lbs. Red X Soap at 4c; 100 lbs. Granulated Sugar at 6c; 50 lbs. Brown Sugar at 5c; 4 brls. White Lily at $6.50; 3000 lbs. Bran at $11.25, per 1000 lbs; 5 bu. Meal at 60c.

When the price is per thousand pounds and expressed in dollars and cents, multiply the quantity by the price and point off five places in the product; if the price is expressed in dollars only, point off three places.

27. Sold J. C. Wilson, on account, 1000 lbs. Bran, $11.25; 25 lbs. Red X Soap at 4c; 1 doz. canned Peaches, $1.35; 4 Shoulders, 85 lbs., at 10c; 3 cans Lard 155 lbs., at 13c.

Received $42.50 for sundry cash sales to date.

Bought of Donaldson Bros., on account, merchandise per invoice of Jan. 24, $172.75.

29. Received $50.00 from C. L. Loyd in part payment of the amount he owes us.

30. Paid Borches & Co. $150.00 to apply on amount we owe them.

31. Paid bookkeeper's salary $25.00, and rent $35.00.

Read rule 6 (§ 46), and enter in your journal; see first transaction of Jan. 4th.

Report the sales to your teacher, as instructed Jan. 13th, and present this, together with your journal, for approval. After they have been approved, follow the instructions given below.

INSTRUCTIONS.

1st. Open accounts in your ledger as follows: Divide page 7 into three equal parts, by drawing a red line on the blue line, one-third the distance from the top, and on the line one-third the distance from the bottom. Draw these lines all the way across. At the top of page 7 write "Imperial Hotel;" on the first red line, "Lake View Creamery;" on the second red line, "A. C. Williams." Rule page 8 in the same manner and at the top write "R. G. Mathews;" on the first red line, "J. Allen Smith & Co."; on the second red line, "C. L. Loyd." Rule page 9 in the same manner, and at the top, write "J. C. Wilson;" on the first red line, "Donaldson Bros."

2d. Post all of the items in the journal as instructed in §§ 60 and 61. Be sure to rule the personal accounts that balance, as instructed. See first account in illustration No. 16.

Special terms are written in the explanation column in the ledger. This refers to the number of days allowed for payment of an invoice.

3d. Check the posting for the entire month of January as instructed in § 65.

4th. Prove cash as instructed in § 64. The difference between the two sides of the Cash account should be $1,547.50; this is the amount of money on hand. Rule the Cash account as shown in illustration No. 1.

5th. Study very carefully § 66, which is an explanation of the Trial Balance, then follow instructions for "Taking a Trial Balance, Jan. 31, 191..," § 67.

6th. Copy the Trial Balance in that part of the blank book used as a journal, as instructed on the inside of front cover.

7th. Read §§ 74 and 75, which is an explanation of the fiscal period and inventory, and note illustration No. 18, which is a list of goods on hand at the close of January.

8th. Read and study §§ 78—80; follow instructions for "Making the Financial, and Profit and Loss statements. Jan. 31, 191..," as given in § 81.

9th. Present your statements for approval, and when approved, copy them in that part of the blank book used as a journal, as instructed on the inside of front cover.

10th. Read §§ 84—88, and follow instructions for "Closing the Ledger, Jan. 31, 191..," as given in § 89.

11th. Present all books for inspection and approval.

12th. While the teacher is examining your books, work out exercise No. 24, and present for approval. The teacher will then return your books and you may proceed with the month of February.

SELLING PRICE LIST FOR FEBRUARY.

Articles.	1	2	3	4	5	6	7	8	9	10	11	12
Granulated Sugar (per lb.)	.07	.06	.07½	.06¼	.08¾	.07¼	.06½	.07	.07¾	.08	.06¾	.08½
Salt (per sack)	.05	.06¼	.07	.06¾	.05½	.06½	.08	.05¾	.07½	.05¼	.07¾	.06
Arbuckle Coffee (per lb.)	.20	.25½	.21	.23½	.22	.24½	.23	.24	.20½	.25	.22½	.21½
Bacon (per lb.)	.13	.13½	.19	.16½	.15	.17½	.14	.18½	.16	.15½	.17	.18
Ham (per lb.)	.13	.19	.13½	.15	.16½	.14	.17½	.16	.18½	.18	.17	.15½
Shoulder (per lb.)	.10	.09¾	.11	.10¾	.12½	.10½	.11¼	.12	.10¼	.11½	.09	.09¼
Lard (per lb.)	.13	.14½	.15	.13¾	.16	.13½	.17	.15¾	.14	.15½	.13¼	.14¾
Canned Tomatoes (per doz. cans)	1.25	1.33	1.28	1.31	1.26	1.35	1.27	1.30	1.29	1.34	1.32	1.36
Canned Peaches (per doz. cans)	1.50	1.85	1.60	2.00	1.90	1.65	1.55	1.75	1.80	2.05	1.70	1.95
Canned Apples (per doz. cans)	1.25	1.35	1.29	1.34	1.28	1.32	1.26	1.36	1.33	1.40	1.45	1.20
Irish Potatoes (per bu.)	1.00	.95	1.02	.98	1.05	1.03	.96	1.08	.97	1.10	1.04	1.07
Sweet Potatoes (per bu.)	.85	.81	.88	.80	.91	.83	.89	.82	.90	.86	.84	.87
Syrup (per gallon)	.50	.45	.47	.49	.46	.48	.51	.55	.54	.56	.53	.52
Beans (per bu.)	2.10	2.20	2.00	2.30	2.05	2.40	2.55	2.25	2.45	2.15	2.50	2.35
Daniel Boone Cigars (per 100)	4.50	4.75	4.60	5.00	4.85	5.10	4.65	4.55	4.70	4.90	4.80	4.95
Creamery Butter (per lb.)	.40	.35	.45	.38	.41	.36	.44	.37	.43	.39	.42	.46
Eggs (per doz.)	.22	.33	.28	.31	.23	.29	.26	.30	.25	.32	.24	.27
Roller King Flour (per barrel)	5.50	5.95	5.75	6.00	5.55	5.65	5.90	6.10	5.80	5.60	5.85	5.70
White Lily Flour (per barrel)	6.15	6.45	6.25	6.70	6.35	6.55	6.20	6.50	6.30	6.65	6.40	6.60
Meal (per bu.)	.75	.81	.76	.86	.78	.83	.77	.85	.80	.84	.79	.82
Bran (per 100 lbs.)	1.20	1.15	.95	.85	1.25	1.40	1.30	1.00	1.10	.90	1.35	1.45
Hay (per 100 lbs.)	.95	1.05	1.15	1.40	1.45	1.55	1.25	1.10	1.35	1.30	1.50	1.20
Corn (per bu.)	.60	.55	.62	.71	.68	.61	.63	.66	.64	.70	.65	.69
Oats (per bu.)	.45	.41	.51	.47	.48	.43	.50	.49	.46	.40	.44	.42
Oranges (per box)	4.50	4.30	4.45	4.80	4.25	4.60	4.55	4.75	4.40	4.65	4.70	4.35
Lemons (per box)	4.25	4.35	4.65	4.50	4.30	4.75	4.40	4.55	4.80	4.60	4.45	4.85
Bananas (per bunch)	2.25	2.60	2.30	2.50	2.70	2.80	2.35	2.55	2.65	2.40	2.75	2.45
Green Apples (per barrel)	5.00	5.25	5.10	5.20	5.30	5.15	5.50	5.60	5.45	5.05	5.65	4.70

MEMORANDA AND TRANSACTIONS FOR FEBRUARY.

1. Deposited $1,500.00 with Merchants National Bank.

No account will be kept with the bank, hence it will not be necessary to enter this transaction in the journal.

Received $12.35 from Central Hotel in payment of their account.

Hereafter all cash transactions will be recorded in the cash book. An explanation of this is given in § 114. If you have followed instructions you are familiar with the form of the cash book, and method of recording transactions in it. The first page of your cash book is not used. Page 2 is for all receipts, and page 3, for all payments.

Before recording any transactions, write the heading at the top, as shown in illustrations Nos. 34 and 35. Transfer the cash balance from the cash account in the ledger, to the debit side of the cash book. (See first entry in illustration No. 34.) On the credit side of the cash account, write in red ink, "Feb. 1, Balance, C. 2, $1547.50," and rule the account with single and double red lines.

Enter this transaction on the debit side of the cash book (page 2) as shown in second entry in illustration No. 34, and as explained in § 114, ¶ 1. There are only three steps necessary to enter a transaction in the cash book: 1st, the date; 2d, the name of the account credited (§ 29, ¶ 4), and the amount; 3d, the explanation. The fact that the entry is made on the debit side of the cash book, debits cash.

Bought of Dick, McMillan & Co., on account, merchandise per invoice of this date, $379.78.

Enter in the journal. This entry is similar to the second one in January.
Debit that which is purchased and credit the person from whom it was bought, unless payment is made. (Rule 2, § 42.)

2. Sold Browning Livery Co., on account, 3,800 lbs. Hay at $1.00 per 100 lbs.; 20 bu. Corn at 65c; 10 bu. Oats; 1,000 lbs. Bran. Render them a bill and enter in the sales book.

Have the teacher assign the prices to be used from those given on page 115. Use these in all sales where the prices are not given.

Hereafter all credit sales will be entered in the sales book and not in the journal. This is fully explained in § 113, and illustration No. 33. If you have followed instructions, you are already familiar with the object of the sales book and the method of making transactions in it. Open the sales book at page 1, and at the top, on the blue line, write the name of the city in which your school is located and the date. Enter the transaction like the first entry in illustration No. 33. To enter a transaction in the journal, there are four steps necessary, but in the sales book only three: The *date*, the *name* of the *person* to whom the goods are sold, and *amount* of the sale and description of the items sold.

Received check for $95.75 from the Imperial Hotel in part payment of account.

In this transaction cash is received, hence it must be recorded on the debit side of the cash book. Make the entry in your cash book the same as the third entry in illustration No. 34. Keep in mind the three steps necessary to record a transaction in the cash book: 1st, the *date*, 2d, the *name* of the *account* and the *amount*; 3d, the *explanation*.

3. Received $87.65 for sundry cash sales to date.

Enter on the debit side of the cash book, the same as the fourth entry in illustration No. 33.

Sold J. E. Clark, on account, 10 lbs. Creamery Butter; 4 cans Lard, 210 lbs.; 18 cans Tomatoes, $1.85; 50 lbs. Gran. Sugar; 10 lbs. Ar. Coffee; 5 Hams, 85 lbs., at 14c; 3 brls. White Lily.

This transaction is a sale on time. Enter in the sales book the same as the second entry in illustration No. 33. The date is written in the middle of the page, just the same as it is in the journal, and nothing else is written on the line with it. Note that the name of the account is written at the left, and the items about one-half inch to the right. There is a blue line in your book to be used as a guide for beginning the name of each article sold.

Sent Lake View Creamery a check in payment of their account in full.

This transaction requires a payment of cash by check. Enter in your cash book. As money is paid, it must be en-

tered on the credit side. There are three steps necessary to make an entry for cash paid: 1st, the date; 2d, the name of the account debited (§ 30, ¶ 1), and the amount; 3d, the explanation. This explanation should always correspond with the information given after "For" on the check stub. See first entry in illustration No. 35.

5. Received check for $24.05 in payment of R. G. Mathews' account in full.

Refer to their account in the ledger to see if the amount is correct. Enter on the debit side of the cash book. See fourth entry in illustration No. 34, and § 114, ¶ 1.

Sold W. L. Wallace, on account, 2 brls. Roller King; 8 bu. Meal; 5 bu. Irish Potatoes; 5 bu. Corn at 65c; 5 Hams, 71 lbs.

Enter in the sales book. See third entry in illustration No. 33, and § 113.

Sent Donaldson Bros. a check for $125.00, which is to apply on account.

Enter in the cash book, on the credit side (page 3). See second entry in illustration No. 35, and § 114, ¶ 2.

6. Bought of J. Allen Smith & Co., on account, merchandise per invoice of this date, $291.00.

Enter as instructed in § 38.

Paid $18.50 for interior painting in the office.

Enter as instructed in § 114, ¶ 2; debit § 32. See third entry in illustration No. 35.

Follow instructions given below.

1st. Prove cash. (§ 115). Foot the debit side of the cash book and write the footings in small pencil figures just beneath the blue line on which the last entry is made. Foot the credit side of the cash book, and write the total in small pencil figures just beneath the blue line on which the last entry is made. On a piece of scratch paper, add the balance on hand February 1, to the total of the debit side. Subtract from this the total of the credit side. The difference should be $1,595.80.

2d. Open accounts in the ledger with Dick, McMillan & Co., Browning Livery Co., J. E. Clark and W. L. Wallace. Allow one-third of a page for each account and divide each page as instructed.

3d. Post all items from the sales book(§ 117), journal (§ 118), debit side of cash book (§ 119), and credit side of cash book (§ 120), in the order mentioned. Keep in mind the fact that each amount in the journal is posted to the *debit* or *credit* side of the account written on the same line with it; each amount in the second column in the sales book is posted to the *debit* side of the person whose name is written on the same line with it; each amount on the debit side of the cash book is posted to the *credit* side of the account written on the same line with it; each amount on the credit side of the cash book is posted to the *debit* side of the account on the same line with it.

The total receipts and payments of cash in the cash book, and the total sales in the sales book are not posted until a trial balance is to be taken.

4th. When you have completed the posting, work out exercises Nos. 25, 26 and 27, and present your work for approval. When these exercises are approved, you may proceed with the transactions.

7. Received checks from M. A. Johnson and A. R. Jennings in full of account.

Refer to the ledger for the amount each owes. Enter as instructed in § 114, ¶ 1, and shown in illustration No. 34.

8. Sold Central Hotel, on account, 4 brls. Roller King; 4 bu. Meal; 4 cans Lard, 209 lbs.; 15 lbs. Arbuckle Coffee; 12 scks. salt.

Enter as instructed in § 113, and shown in illustration No. 33. Be sure your calculations are correct.

Sent J. Allen Smith & Co., a check for $197.10, in full of invoice of Jan. 23.

Enter as instructed in § 114, ¶ 2, and shown in illustration No. 35.

9. Bought of Donaldson Bros., on account, merchandise per invoice of Feb. 7th, $378.25.

10. Received $107.80 for sundry cash sales to date.

Enter as instructed in § 114, ¶ 1, and shown in illustration No. 34.

Sold M. A. Johnson, on account, 20 bu. Corn at 65 cts.; 3 Hams, 55 lbs; 8 doz. Eggs; 5 bu. Oats, 3 brls. White Lily at $6.50; 10 sacks Salt.

Enter as instructed in § 113. For form, see illustration No. 33.

You will have to guard against the habit of getting careless in doing the work on your books. It is through this that your teacher is enabled to judge of your capabilities, and give you the proper grade. *Remember that habits formed in the schoolroom may remain with you in the office, and that there are no business men who wish to employ careless office help.*

12. Paid Allen, Stephenson & Co., $35.00 for a desk, and $5.00 for an office chair.

The purchase of this property will involve the opening of a new account, that of "Furniture and Fixtures."

Enter as instructed in § 114, ¶ 2. and shown in illustration No. 35.

13. Sent Dick, McMillan & Co., a check for $150.00 in part payment of amount we owe them.

Enter as instructed in § 114, ¶ 2, and shown in illustration No. 35.

Received check from Browning Livery Co. for $48.65, in part payment of their account.

Enter as instructed in § 114, ¶ 1, and shown in illustration No. 34.

Make a report of the sales to your teacher and present, together with your books, for approval.

Prove cash as instructed in § 115. See illustrations Nos. 34 and 35. Your cash book should be the same as these.

Post all items from the sales book, § 117; journal, § 118; debit side of cash book, § 119; and credit side of cash book. § 120. *Check* the posting from the 1st to the 7th (§ 65). *Positively no books will be approved unless each item is checked,* Allow one-third of a page for all new accounts.

Present your books for inspection. While the teacher is examining them, work out exercises 28, 29 and 30 and present for approval.

14. Bought of M. L. Ross & Co., on account, merchandise per invoice of this date, $131.15.

15. Sold Cumberland Hotel, on account, 5 doz. canned Peaches; 3 doz. canned Apples; 4 brls. White Lily, at $6.50; 3 bu. Meal; 6 doz. canned Tomatoes.

Received $66.50 from A. R. David in payment of 3 tons Hay at $20.00, and 1 brl. White Lily at $6.50.

While this is a cash sale, yet it can be entered in the sales book just the same as a regular credit sale. Enter in your sales book the same as other sales. Enter in the cash book as shown in illustration No. 34, 9th entry. As the bill is paid, there will be no use opening an account in the ledger with A. R. David. To avoid posting, place a check mark in the L. F. column to the left of his name, in both the cash book and sales book.

16. Bought of W. W. Scarborough & Co., on account, merchandise per invoice of this date, $78.00.

Received A. C. Williams' 15-day note dated today, in full of account.

Refer to the ledger for the amount. Enter as instructed in § 38. Debit, § 123, ¶ 2; credit, § 29, ¶ 5. See illustration at the top of page 119.

16			
Notes Receivable		42 30	
A. C. Williams			42 30
Received his fifteen-day note, dated today, in full of account.			

While Mr. Williams still owes the same amount, yet now it is in the form of a written promise to pay at a fixed time; the account, being only our statement of the amount of the indebtedness, was subject to dispute and might contain errors. It is for this reason that we give his account credit for the amount of the note, and allow the Notes Receivable account to show the amount due us.

17. Sent Hazen & Lotspeich a check for the balance due them.

Refer to their account in the ledger for the amount. Enter as instructed in § 114, ¶ 2, and shown in illustration No. 35.

Received cash, $47.50, for sundry cash sales to date.

Enter as instructed in § 114, ¶ 1, and shown in illustration No. 34.

Sold Browning Livery Co., on account, 4,877 lbs. Hay; 50 bu. Corn; 50 bu. Oats.

Enter as instructed in § 113. See illustration No. 33.

19. Received check from C. L. Loyd, in full of account.

Refer to his account for the amount of the check. Enter as instructed in § 114, ¶ 1, and shown in illustration No. 34.

20. Sold J. C. Wilson, on account, 100 lbs. Granulated Sugar; 16 lbs. Arbuckle Coffee; 3 cans, 152 lbs., Lard; 3 brls. White Lily at $6.50; 3 bu. Meal; 2 doz. canned Tomatoes.

Gave Borches & Co. a note at twenty days for the balance we owe them.

Refer to the ledger for the amount. Enter as instructed in § 38. Debit, § 30, ¶ 2. Credit, § 124, ¶ 3.

20			
Borches & Co.		96	
Notes Payable			96
Gave our twenty-day note of even date in full of account.			

21. Bought of R. Knaffl, on account, merchandise per invoice of this date, $164.31.

Sold Cumberland Hotel, on account, 2 boxes Oranges; 1 box Lemons; 5 bunches Bananas; 4 cans, 188 lbs., Lard; 2 brls. Roller King.

22. Accepted Donaldson Bros.' ten-day draft for $47.75. This is for balance of invoice bought Jan. 27th.

Compare with their account in the ledger to determine the correctness of the amount, then enter (§38). Debit § 30, ¶ 2. Credit, § 124, ¶ 4. See illustration at bottom of page 119.

Bought of Cullen & Shields, on account, 1 ten foot show case, $25.00.

Enter in § 38; debit, § 122, ¶ 2; credit, § 30, ¶ 10.

23. Received from J. C. Wilson, his 10-day note for $42.25, in full for bill of Jan. 27th.

Compare with his account in the ledger. Debit, § 123, ¶ 2; credit, § 29, ¶ 5. See illustration on page 119.

Prove cash as instructed in § 115. See illustrations Nos. 34 and 35. Your cash book should be the same as these. Post all amounts from the sales book, § 117; journal, § 118; debit side of the cash book, § 119; credit side of the cash book, § 120. Check the postings from the 7th to the 13th. (Do not post amount charged A. R. David in the sales book or credited to him in the cash book.)

Work out exercises Nos. 31, 32 and 33, in the text, and present them for approval.

Gave J. Allen Smith a check for $175.00, on account.

Enter as instructed in § 114, ¶ 2, and shown in illustration No. 35.

24. Sold J. H. Porter, on account, 4 Hams, 49¾ lbs; 125 lbs. Granulated Sugar; 2 cans, 98 lbs., Lard; 4 bales, 425 lbs., Hay at $1.10 per C.; 1 brl. Roller King; 4 bunches Bananas at $2.50; 5 bu. Sweet Potatoes.

Received check from Browning Livery Co. for $38.25 on account.

Received cash from J. E. Clark, on account, $40.00; sundry cash sales, $95.50.

Enter as instructed in § 114, ¶ 1, and shown in illustration No. 34.

26. Sold A. R. Jennings, on account, 5 brls. Roller King; 600 lbs. Hay at $1.10 ; 800 lbs. Bran; 49¾ bu. Corn; 40 bu. Oats at 40c; 4 bu. Irish Potatoes.

TO THE STUDENT. In entering these transactions, you should first make the extension on scratch paper, that you may get the amounts correct before writing them in the sales book, and thus avoid having to erase. *Careless work in the schoolroom means careless work in the office, which is equivalent to a small salary and slow promotion.*

27. Sold J. E. Clark, on account, 6 Shoulders, 81 lbs; 2 cans, 101 lbs., Lard; 4 Hams, 47 lbs; 2 doz. canned Peaches; 3 bu. Beans; 100 lbs. Granulated Sugar; 4 brls. Roller King.

28. Paid bookkeeper's salary for this month, $25.00.

Enter as instructed in § 114, ¶ 2; debit, § 32, ¶ 1.

Paid rent and clerk hire, $35.00; stamps, $2.50; and balance due clerk, $9.25.

Make a report of sales and present it, together with your books, to the teacher for inspection, after which you will follow instructions given below:

1st. Prove Cash. Have the teacher approve your cash balance. Rule the cash book as shown in illustrations Nos. 34 and 35.

2d. Post all items to date (§§ 116—120), and check the postings from the 14-28. Rule personal accounts when they balance, (§62). Allow one-third of a page for all new accounts. *Your books will not be approved unless each item is checked in the books of original entry and ledger.*

3d. Foot and rule the sales book as shown at the bottom of illustration No. 33. Post the total to the credit side of the Merchandise account, § 117.

4th. Foot all the accounts having more than one debit or credit amount. Take the difference of the personal accounts and place the amount in the explanation column on the larger side.

5th. Take a Trial Balance as instructed in § 125, also § 66 and § 67.

6th. Make the Financial, and Profit and Loss statements as instructed in § 126 and § 127, and §§ 78—81. Inventories: *Mdse.*, goods on hand, $1,502.90. *Furniture and Fixtures*, desk, chair and show case on hand, $60.00.

7th. Close the ledger as instructed in § 128 and § 84. For closing Furniture and Fixtures account, see illustration No. 36. Present books for approval.

8th. While the teacher is examining your books, work out exercise No. 34, in the text.

SELLING PRICE LIST FOR MARCH.

Articles.	1	2	3	4	5	6	7	8	9	10	11	12
Granulated Sugar (per lb.)	.07	.06	.07½	.06¼	.08¾	.07¼	.06¼	.07	.07¾	.08	.06¾	.08½
Salt (per sack)	.05	.06¼	.07	.06¾	.05½	.06½	.08	.05¾	.07½	.05¼	.07¾	.06
Arbuckle Coffee (per lb.)	.20	.25½	.21	.23½	.22	.24½	.23	.24	.20½	.25	.22½	.21½
Bacon (per lb.)	.13	.13½	.19	.16½	.15	.17½	.14	.18½	.16	.15½	.17	.18
Ham (per lb.)	.13	.19	.13½	.15	.16½	.14	.17½	.16	.18½	.18	.17	.15½
Shoulder (per lb.)	.10	.09¾	.11	.10¾	.12½	.10½	.11¼	.12	.10¼	.11½	.09	.09¼
Lard (per lb.)	.13	.14½	.15	.13¾	.16	.13½	.17	.15¾	.14	.15½	.13¼	.14¾
Canned Tomatoes (per doz. cans)	1.25	1.33	1.28	1.31	1.26	1.35	1.27	1.30	1.29	1.34	1.32	1.36
Canned Peaches (per doz. cans)	1.50	1.85	1.60	2.00	1.90	1.65	1.55	1.75	1.80	2.05	1.70	1.95
Canned Apples (per doz. cans)	1.25	1.35	1.29	1.34	1.28	1.32	1.26	1.36	1.33	1.40	1.45	1.20
Irish Potatoes (per bu.)	1.00	.95	1.02	.98	1.05	1.03	.96	1.08	.97	1.10	1.04	1.07
Sweet Potatoes (per bu.)	.80	.81	.88	.85	.91	.83	.89	.82	.90	.86	.84	.87
Syrup (per gallon)	.50	.45	.47	.49	.46	.48	.51	.55	.54	.56	.53	.52
Beans (per bu.)	2.00	2.20	2.10	2.30	2.05	2.40	2.55	2.25	2.45	2.15	2.50	2.35
Daniel Boone Cigars (per 100)	4.50	4.75	4.60	5.00	4.85	5.10	4.65	4.55	4.70	4.90	4.80	4.95
Creamery Butter (per lb.)	.40	.35	.45	.38	.41	.36	.44	.37	.43	.39	.42	.46
Eggs (per doz.)	.25	.33	.28	.31	.23	.29	.26	.30	.22	.32	.24	.27
Roller King Flour (per barrel)	5.50	5.95	5.75	6.00	5.55	5.65	5.90	6.10	5.80	5.60	5.85	5.70
White Lily Flour (per barrel)	6.50	6.45	6.25	6.70	6.35	6.55	6.20	6.15	6.30	6.65	6.40	6.60
Meal (per bu.)	.75	.81	.76	.86	.78	.83	.77	.85	.80	.84	.79	.82
Bran (per 100 lbs.)	.85	1.15	.95	1.20	1.25	1.40	1.30	1.00	1.10	.90	1.35	1.45
Hay (per 100 lbs.)	.95	1.05	1.15	1.40	1.45	1.55	1.25	1.10	1.35	1.30	1.50	1.20
Corn (per bu.)	.55	.60	.62	.71	.68	.61	.63	.66	.64	.70	.65	.69
Oats (per bu.)	.40	.41	.51	.47	.48	.43	.50	.49	.46	.45	.44	.42
Oranges (per box)	4.50	4.30	4.45	4.80	4.25	4.60	4.55	4.75	4.40	4.65	4.70	4.35
Lemons (per box)	4.25	4.35	4.65	4.50	4.30	4.75	4.40	4.55	4.80	4.60	4.45	4.85
Bananas (per bunch)	2.25	2.60	2.30	2.50	2.70	2.80	2.35	2.55	2.65	2.40	2.75	2.45
Apples (per barrel)	5.00	5.25	5.10	5.20	5.30	5.15	5.50	5.60	5.45	5.05	5.65	5.70

MEMORANDA OF TRANSACTIONS FOR MARCH.

Hereafter all credit purchases will be entered in the purchases book, and not in the journal. Note explanation of this book in § 130 and illustration No. 42. Use the last page of the cash book and enter the transactions there, the same as the first entry in the illustration.

1. Considering the fact that you are becoming more proficient in your work, and that the business is increasing, your salary has been increased $10.00 per month. You should appreciate this and act accordingly.

DO YOU THINK YOU ARE ENTITLED TO AN INCREASE? HAVE YOU BEEN DOING YOUR BEST AND TRYING TO IMPROVE? THAT IS WHAT IT TAKES TO OBTAIN AN INCREASE IN SALARY WITHOUT ASKING FOR IT.

Have closed a deal with M. V. Hoffman, for the purchase of the store house in which we are doing business, and the lot on which it is located. The amount paid is $1,000.00, and a check has been sent Mr. Hoffman for this amount. The deed has been sent to the Register's office to be recorded.

Enter as instructed in § 114, ¶ 2. Debit § 132, ¶ 2. Begin on a new page in the cash book. Enter the balance on the first blue line at the top of new page, same as the beginning of February.

Received of Cumberland Hotel, P. A. Banesforth's note for $87.65, dated Feb. 14th, and due in 30 days, with interest, to apply on account.

Enter as instructed in § 38; debit, § 123. See illustration below.

2. Bought of Kaiser Bros., on account, merchandise per invoice of this date, $113.80.

Enter in the purchases book (§ 130, illustration No. 42), and *not* in the journal.

Received check from Browning Livery Co., for $39.87, to apply on account.

Sold R. A. Carson & Son, on account, 1,500 lbs. Hay; 500 lbs. Bran; 25 bu. Corn; 50 bu. Oats.

To the student. Use the same number in the price list for March, as that assigned at the beginning of February.

3. Received check and note at 20 days for $39.50 from the Central Hotel, in full of account.

This transaction requires two entries; one for the check (difference between the face of note and balance due), and the other for the note. Enter the check on the debit side of the cash book, writing "In full of account" for the explanation. Enter the note in § 38 debit (§ 123, ¶ 2), and credit (§ 29, ¶ 5). The explanation should be "Received their 20-day note of even date on account."

Sent J. Allen Smith & Co., a check in full of account.

Received check for $42.30, in payment of A. C. Williams' note due today.

As cash is received in this transaction, it is necessary to enter it on the debit side of the cash book. While the check is signed by Mr. Williams, yet it is not in payment of his account, but a note; hence, "Notes Receivable" must be written as the name of the account credited. The explanation is "A. C. Williams' note," (§ 123, ¶ 4).

Mr. Williams' account was credited for the value of this note when it was received, and to credit his account for the the check, would be incorrect because it would give him credit for the payment twice.

Received cash from J. E. Clark, on account, $20.15; sundry cash sales, $51.35.

4. Sold R. G. Mathews, on account, 5 brls. Roller King; 10 Hams, 186 lbs.; 10 gal. Syrup.

5. Paid by check, Donaldson Bros.' ten-day draft, which was accepted Feb. 22, $47.75.

Enter as instructed in § 114, ¶ 2. Debit, § 124, ¶ 1.

Bought of the Procter & Gamble Co., subject to draft at ten days, merchandise per invoice received this date, $155.00.

Enter as instructed in § 130 and illustration No. 42.

TO THE STUDENT. The terms, "Draft, 10 days," indicate that the seller will draw a ten-day draft for the amount.

Sold C. L. Loyd, on account, 50 lbs. Bacon; 40 lbs. Ham; 2 brls. White Lily; 10 sacks Salt.

Received check for $42.25 in payment of J. C. Wilson's note due today.

Enter in the same manner as the third transaction on Mch. 3

6. Accepted draft drawn by Donaldson Bros. at fifteen days' sight, for $378.25.

Note explanations and instructions given under the first transaction on Feb. 22.

Paid K. & O. R. R., $16.75, in currency, for freight on goods purchased from the Procter & Gamble Co., on the 5th.

Enter as instructed in § 114, ¶ 2; debit, § 31, ¶ 3.

When you have completed the record of the above transaction, proceed as follows:

1st. Prove cash as instructed in § 115. Have your balance approved by the teacher.

2d. Post all the items from the sales book (§ 117), purchases book (§ 130, ¶ 1), journal (§ 118), debit (§ 119), and credit (§ 120), sides of the cash book. Each account in the journal is *debited* or *credited* for the amount written on the same line with it, according to the column in which it is entered. Each account in the sales book is *debited* for the amount written on the same line with it. Each account in the purchases book is *credited* for the amount on the same line with it. The totals of the sales book and purchases book are not posted until a trial balance is to be taken. The time of notes and drafts, and special terms on invoices must be written in the explanation column in the ledger. Each account on the debit side of the cash book is *credited* for the amount written on the same line with it, and each account on the credit side of the cash book is *debited* for the amount written on the same line with it.

When you have finished posting, work out exercises Nos. 35, 36 and 37, and present for approval.

7. Paid Cullen & Shields, invoice of Feb. 22.

Bought of J. Allen Smith & Co., on account, merchandise per invoice of this date, $242.35.

Enter as instructed in § 130, and illustration No. 42.

8. Received from J. H. Porter, his 15-day note dated today, in full of account.

Refer to his account in the ledger for the amount. Debit, § 123, ¶ 2, and credit, § 29, ¶ 5.

Sold Imperial Hotel, on account, 6 brls. Roller King; 4 brls. White Lily; 6½ bu. Irish Potatoes; 3 bu. Meal; 12 sacks Salt.

Received cash from Cumberland Hotel, on account, $15.15; also for sundry cash sales, $60.75.

Paid $25.00 for repairs on the building.

Enter in § 114, ¶ 2; debit, § 133, ¶ 1.

9. Accepted draft at ten days' sight, for amount of bill bought on the 5th, from the Procter & Gamble Co.

Refer to their account in the ledger for the amount. Debit, § 30, ¶ 3; credit, § 124, ¶ 4.

Received check from J. C. Wilson for $29.86.

10. Sold J. E. Clark, on account, 2 brls. Roller King; 800 lbs. Hay; 600 lbs. Bran; 3 bu. Meal; 195 lbs. Bacon; 9 sacks Salt.

TO THE STUDENT. You will have to guard against carelessness in making these extensions. Keep in mind the fact that habits formed in the school room are apt to become permanent, a circumstance which would be very unfortunate in an office, if the habits are bad.

Bought of W. W. Scarborough & Co., on account, merchandise per invoice of this date, $148.75.

See illustration No. 42, and § 130.

Paid R. Knaffl $75.00 on account.

12. Gave W. W. Scarborough & Co., a check for $96.80, to apply on account.

Sold Browning Livery Co., on account, 61 bu. Corn at 60 cents; 30 bu. Oats; 1,200 lbs. Hay; 800 lbs. Bran.

Gave cashier of the bank check for $96.00, in payment of our note due today.

Enter as instructed in § 114, ¶ 2; debit, § 124, ¶ 1.

13. Received check from Imperial Hotel for $61.85, on account.

Paid $20.00 for clerks' salaries.

Debit § 32, ¶ 1, and credit § 114, ¶ 2. Why?

13. Bought of Hazen & Lotspeich, merchandise per invoice of the 12th, $245.70.

Enter in the purchases book, as shown in illustration No. 42. Keep in mind the three steps necessary to record a transaction in the purchases book: 1st, the date; 2d, the name of the person from whom the goods were purchased, and the amount; 3d, the explanation.

14. Received cash from J. C. Wilson, in full of account.

Received note at 15 days from A. R. Jennings, in full of account.

15. Gave Dick, McMillan & Co. a note at 90 days, with interest, for the balance due them.

Received check from Browning Livery Co. for $25.00, to apply on account.

Sold J. C. Wilson, on account, 300 lbs. Hay; 2 cans, 108 lbs., Lard; 4 Shoulders, 55½ lbs; 3 bu. Meal; 2 brls. White Lily.

Make a report of sales and present, together with your books, for inspection, then follow instructions below:

1st. Prove cash as instructed in § 115. Have your balance approved by the teacher.

2d. Rule the cash book as instructed, at the close of February; if you are not sure about the form, refer to illustrations Nos. 34 and 35.

3d. Post all amounts from the sales book, purchases book, journal, debit and credit sides of the cash book. Keep in mind the fact that each person in the sales book is *debited* with the amount of his purchase, and that each person in the purchases book is *credited*, for the amount purchased from him. Each amount that appears on the debit side of the cash book is posted to the *credit* side of that account in the ledger, and each amount on the credit side of the cash book is posted to the *debit* side of that account in the ledger. New accounts are allowed one-third of a page, the page being divided by red lines, as instructed.

4th. Rule the sales book in the same manner as you did February 28th. Refer to illustration No. 33 if you are not sure about the form. Post the total sales to the credit side of the Merchandise account. Write "Credit Sales" in the explanation column.

5th. Foot and rule the purchases book, as shown in illustration No. 42. Post the total to the debit side of the Merchandise account, writing "Credit Purchases" in the explanation column.

6th. Check the postings to date. Keep in mind the fact that your books will not be approved unless each item in all books of original entry and the ledger is checked.

7th. Take a Trial Balance. Proceed as follows: Add the debit and credit sides of each account that has more than one entry, and enter the total with small pencil figures just beneath the line on which the last amount is written; take the difference of the personal accounts, writing each with small pencil figures in the explanation column on the larger side; on a sheet of journal paper, list the accounts as they appear in the ledger, beginning with W. H. Goodwin, on page 1; write Cash on the line below Mr. Goodwin's name, and place the balance in the debit column. The first column of the Trial Balance represents the debit side of the ledger, and the second column the credit side, hence, the debit and credit totals on the ledger are entered in the columns which represent the side of the ledger on which the amount appears. The balance of personal accounts is used. If the work is correct, the two sides of the Trial Balance will be equal. (§ 66.)

8th. Present your Trial Balance to the teacher for approval, and when he has approved it, copy as instructed on the inside of the front cover of the journal.

9th. Present all books to the teacher for approval. While the teacher is examining your books, work out exercises Nos. 38, 39 and 40.

16. Sold Cumberland Hotel, on account, 3 brls. White Lily; 4 cans, 186 lbs., Lard; 6 Hams, 97 lbs; 5 bu. Sweet Potatoes; 4 doz. canned Tomatoes.

Received check in payment of 30-day note due today, $87.65, and interest on same, 44 cents.

No entry was made for the amount of this interest at the time the note was received, and as nothing was given out for it, the amount is a clear profit.

Enter as instructed in § 114, ¶ 1; credit § 123, ¶ 4, and § 135, ¶ 4. Make two separate entries.

Sold W. W. Scarborough & Co., on account, 1 brl. White Lily Flour at $6.50; 10 lbs. Arbuckle Coffee at 20 cents.

17. Bought of Borches & Co., on account, merchandise per invoice of this date, $205.10.

Received cash, $72.00, for sundry cash sales to date.

19. Received check from C. L. Loyd, in full of account.

Paid the ten-day draft, $155.00, drawn by the Procter & Gamble Co., due at bank today.

20. Sold Browning Livery Co., on account, 2,358 lbs. Hay; 60 bu. Corn; 15 bu. Oats; 3,129 lbs. Bran.

Sold A. R. Jennings, on account, 10 brls. Apples; 3 boxes Oranges; 50 doz. Eggs.

Bought of Lake View Creamery, on ten days' time, merchandise per invoice of March 18th, $56.00.

Received check from Imperial Hotel in full of account.

The ledger contains a history of each account, if all items are posted. See that you get this entry correct.

21. As I have not very much money in the bank, and a number of accounts will soon be due, I have borrowed $400.00 from the bank. Paid the interest, $2.67, by check.

The bank charged 8 per cent interest on the money for 30 days, and required this interest paid in advance. Sometimes the interest is deducted from the amount on the face of the note, and the depositor credited with the proceeds. It is better to write a check in favor of the bank, and receive credit for the full amount on the face of the note.

Read § 124, ¶ 3, and § 135. ¶ 2. Enter the transaction in the cash book (§114, ¶ ¶ 1 and 2.)

Paid $25.00 for clerk's salary and other expenses.

Book, § 114, ¶ 2; account debited, § 32, ¶ 1.

Paid at the bank, draft drawn by Donaldson Bros, $378.25.

Book, § 114, ¶ 2; account debited, § 124, ¶ 1.

22. Received check from W. L. Wallace, in full of account.

Sold Central Hotel, on account, 5 cans of Lard, 254 lbs; 1 doz. Shoulders, 278 lbs., at 9c; 2 brls. Apples; 50 lbs. Arbuckle Coffee; 5 bu. Beans.

Sold R. A. Carson & Son, on account, 5 brls. White Lily; 10 bu. Meal; 5 bu. Irish Potatoes; 500 Daniel Boone Cigars; 1 doz. Hams, 238 lbs; 10 sacks Salt.

Bought of Kaiser Bros. merchandise per invoice of the 20th, $30.00.

Proceed as follows:

1st. Prove cash as instructed in § 115. Have the teacher approve your balance.

2d. Post all amounts from the sales book, (§117), purchases book (§ 130, ¶ 1) and journal (§ 118), debit side (§ 119), and credit side (§ 120), of the cash book. Do not post the total sales or purchases. Be sure to post from the books in the order named. If it is necessary to open new accounts, allow one-third of a page for each, and divide the page with red lines, as instructed.

3d. Work out exercise No. 41 and present for approval.

23. Received check for $39.50, in payment of note due today.

Enter as instructed in § 114, ¶ 1; credit, § 123, ¶ 4.

Sold J. H. Porter, on account, 4 Hams, 67 lbs.; 2 cans Lard, 99 lbs.; 57 lbs. Bacon at 14c; 9 lbs. Arbuckle Coffee; 4 bu. Irish Potatoes; 2 brls. Roller King; 2 doz. canned Peaches.

Received check in payment of 15-day note received March 8.

Enter in § 114, ¶ 1; credit, § 123, ¶ 4.

24. Gave M. L. Ross & Co. a check for the balance due them.

Bought of Latham & Agee, merchandise per invoice of this date, $40.00.

Sold C. L. Loyd, on account, 10 bu. Irish Potatoes; 3 brls. Roller King; 5 bu. Sweet Potatoes, 20 sacks Salt; 2 doz. canned Tomatoes.

Received cash, $174.50, for sundry cash sales to date.

26. Sold W. A. Davis the entire business, including goods on hand, furniture and fixtures, store house and lot. He will take possession on the 31st inst., paying $1979.46, cost price of the goods on hand at that time, $50.00 for desk, show case, etc., and $1,200.00 for the building and lot. All customers who owe us have been notified that settlement must be made at once that outstanding obligations may be met.

No entry is required until the transaction is completed.

Sent W. W. Scarborough & Co. a check in full of account.

27. Sent the Daily News Co. a check for $10.87, in payment of advertising to date.

As this is one of the costs of conducting the business, the amount is charged to § 32, ¶ 1.

Gave R. Knaffl a check in full of account.

29. Received checks from J. C. Wilson, Cumberland Hotel, Browning Livery Co., J. H. Porter, J. E. Clark and M. A. Johnson, each in full of account.

Enter as instructed in § 114, ¶ 1. Make a list of these and present to the teacher for approval.

30. Received check from A. R. Jennings in payment of his note, received March 14.

Received check from W. A. Davis for $3,229.46, as per contract made March 26th.

Credit § 31, ¶ 5, with $1,979.46; § 122, ¶ 3, $50.00; and § 132, ¶ 6, for $1,000.00; and § 133, ¶ 4, for $200.00.

31. Credit the Real Estate Expense and Revenue account for $35.00, the amount which would have been paid for rent had the building belonged to someone else.

Enter in § 38. Debit, § 32, ¶ 1; credit, § 133, ¶ 3.

Received cash for sundry cash sales to date, $80.50.

Received checks from R. A. Carson & Son, A. R. Jennings, Central Hotel, R. G. Mathews, and C. L. Loyd, each in full of account.

Make a list and present for approval.

Sent checks to all the (6) persons whom we owe, in full of account.

Make a list of the creditors and have it approved before entering in the cash book.

Sent Dick, McMillan & Co., a check for $230.35, to pay the note we owe them, and 57c interest to date.

Enter (two entries) as instructed in § 114. ¶ 2; debit, § 124, ¶ 1, and § 135, ¶ 1.

Paid bookkeeper's salary for March, and $50.00 for balance due clerk and sundry expenses.

Do you know what the amount should be? Debit § 32, ¶ 1.

By special agreement, the bank has accepted a check for $400.00, amount of our note, which is not yet due.

A note can not be paid before maturity except by special agreement. Debit § 124, ¶ 1.

Make the Financial, and Profit and Loss statements to show the profits for the fiscal period ending March 31.

You will have to post and take a Trial Balance before this can be done. Follow instructions below.

1st. Make a report of the sales and have it approved.

2d. Prove cash (§ 115), and rule the cash book. Have cash balance approved by teacher. If you are in doubt about the form, refer to illustrations Nos. 34 and 35.

3d. Post and check all items to date. Each entry in the books of original entry and ledger must be checked, otherwise your books will not be approved.

4th. Rule the sales book and post the total to the credit side of the Merchandise account. (§ 113 and illustration No. 33.)

5th. Rule the purchases book and post the total to the debit side of the Merchandise account. (§ 130, ¶ 1, and illustration No. 42.)

6th. Take a Trial Balance (§ 140 and § 66), using both sides of all the accounts that have debits and credits. Enter the cash balance on the next line below W. H. Goodwin, Capital.

7th. Make the Financial (§ 141), and Profit and Loss (§ 142) statements. As all debts due the business have been collected, all outstanding obligations paid, and all property sold for cash, the only resource will be cash; there are no liabilities. Refer to illustrations Nos. 39 and 40 for the form of the statements.

8th. Close the ledger (§ 143) as follows: Transfer the balance of the following accounts to Profit and Loss: Expense (§ 32 and § 87); Furniture and Fixtures (§ 122 and § 87); Merchandise (§ 31 and § 87); Interest (§ 135 and § 87); Real Estate Expense and Revenue (§ 133 and § 87). Close the balance of the Profit and Loss account (§ 33 and § 87) into W. H. Goodwin, Capital account (§ 34). Rule and foot W. H. Goodwin's account and bring down the Present Capital on the credit side. You will observe that this is exactly the same as the cash balance. This is proof that the difference between the resources and liabilities in a business must always be the same as the present capital.

9th. Present your books for approval. While the teacher is examining them, work out exercise No. 42.

PART II.

PARTNERSHIP.

APRIL.

RETAIL HAY, GRAIN AND FEED BUSINESS, C. W. KEELAND & CO., PROPRIETORS.

Introducing accounts with partners; special accounts with merchandise; special accounts with expense; special accounts with fixed investments; special columns in the cash book; carbon copy sales book; special form of the purchases book; other features that pertain to the best methods of bookkeeping and accounting.

The object of this set is to teach the student the practical application of the principles learned in the preceding work. A sufficient number of transactions are given to enable him to appreciate the importance of accuracy, neatness and a systematic record. The student of bookkeeping and accounting must understand the fundamental principles of the subject and acquire the ability to put this knowledge into practice. The value of his services will depend upon his understanding of the subject and his ability to practically apply the same.

PARTNERSHIP.

§ 145. **A Partnership** is the relation existing between two or more persons who have associated their time, labor, skill and capital in some business enterprise. The partners are the persons who have entered into the agreement to form a partnership.

§ 146. **The Object of forming a Partnership** is for the mutual benefit of all interested. The qualifications and natural ability of each person differ widely. One seldom possesses all the requirements for an ideal business man. For this reason, the association together as partners is often very desirable. A shrewd buyer, a good salesman, and an excellent collector, will form a partnership that is sure to succeed. While the necessary capital for conducting the business is usually the chief incentive to the formation of a partnership, yet the natural ability of each partner should always be considered, especially if he is to take an active part in the business.

§ 147. **The Capital of a Partnership** is the amounts invested by the partners, either at the beginning or at subsequent times, and the accrued profits. This property does not belong to any one of the partners, either as a whole or a part, but belongs to all of them in common, and no partner has the right to dispose of it without the consent of each individual. Should a dispute arise in regard to this and no agreement can be effected, the matter will have to be settled by some court of equity, as partners can not sue each other in a court of law.

§ 148. **The Articles of Copartnership** is the agreement or contract entered into by the partners at the beginning of the business and must conform to the laws of the state in which it is made. This agreement should be in writing, although, under certain circumstances, a verbal one is legal. It should state the *time* the partnership is to continue; the *name* under which they will do business; the *amount* invested by each; the *place* of business; the *nature* of the business; the *duties* of each partner; the amount to be *withdrawn* by each partner; the *division* of the profits; such *special* conditions as may be deemed necessary. Each partner signs the articles of agreement and retains a copy.

¶ 1. *The Time.* Unless the specific time is mentioned, the court will assume that the partnership is to exist for one year, and it may be dissolved at the end of a year if either partner asks for a dissolution. For this reason, the number of years that the partnership is to exist should be stated.

¶ 2. *Name.* The partnership can do business under any name that the partners may select,

provided this name does not interfere with the right of someone else. As a general rule, the firm name contains the names of the partners who are most active in the business. The firm name of Jones, Smith & Co. does not necessarily mean that there are more parties interested in the business than Jones and Smith, except in a few states where the law does not permit the use of the word "Company" unless it is represented by one or more persons. The Union Mfg. Co. might be selected as a name for the partnership, thus not mentioning the name of any individual connected with it. Since each partner is interested in the success of the business, and his personal influence is worth something to the business, it is really best to use the names of the partners as the firm name.

¶ 3. *Amount Invested.* This refers to the amount invested at the beginning of the business, and any subsequent investments. The property invested is usually cash, but might be any other property, either tangible or intangible, that the partners agree to accept. Sometimes the personal influence or ability of one particular partner is accepted as his investment. A full description of the amounts invested at the beginning, and if desired, subsequent investments, should be outlined in the agreement that there may be no misunderstanding.

¶ 4. *Place of Business.* This usually refers to the city or town in which the partners are to do business, though it may indicate the street and number of the building where the business is to be located. This is not as important a point as some others, because, as a general rule, it is understood that the partnership is to do business in the town where the agreement is signed.

¶ 5. *Nature of the Business.* It is best to describe in detail the nature of the business to be conducted, so that there will be no occasion for dispute.

¶ 6. *Duties.* A general outline of the duties to be performed by each partner should be specifically stated in the agreement. Each partner should be assigned such work as is best suited to his natural ability. Unless the duties of each partner are outlined in the agreement, there is almost sure to be trouble, because someone must of necessity assume leadership, and too often, the one who is least qualified to do this feels that he is the one that should do it. The success of the business depends upon each individual partner working for the interest of the business, and if it is understood at the beginning just what each is to do, there can be no misunderstanding.

¶ 7. *Salaries.* As a general rule, no partner is allowed to withdraw any part of his investment without the written consent of the other partners. If a partner is permitted to do so, this condition should be specifically stated. Each partner is usually allowed a salary for his services. The amount of this should be stated, so that there will be no dispute. This is a very important part of the agreement and can not be made too clear.

¶ 8. *Division of the Profits.* Unless the agreement specifically states the proportionate part of the profit each partner is to share, the court will assume that each partner is to have an equal part. For this reason, the agreement must state the proportionate part of the profit each partner is to receive.

¶ 9. *Special Conditions.* The partners may include in the agreement any conditions that are not contrary to law. As the agreement is each partner's understanding of the conditions under which the partnership is to exist, everything should be mentioned so that there will be no occasion for a misunderstanding. Each partner owes it to the business to see that he does not become involved in his own private affairs. For this reason, each partner should agree not to become surety for anyone else, or engage in any other business. Unless these features are included in the agreement, the business may be seriously affected by the private affairs of one partner. The law regards the interest of each partner as property which may be sold to pay his obligations, no matter what agreement he may have with others regarding this.

§ 149. **Bookkeeping for a Partnership** does not differ from that of an individual unless the nature of the business is different. The investment account will be represented by two or more individual Capital accounts instead of one. The profits are shared by each partner according to the conditions mentioned in the agreement, hence the Profit and Loss account is closed into each partner's Capital account instead of only one Capital account. It is good policy to make a copy

of the articles of agreement in the journal or at least outline the important features. The object of this is to prevent disputes among partners. Since the books are open for the inspection of each partner, if an outline of the agreement appears in the journal, neither partner can claim that he did not understand the agreement.

§ 150. Accounts with Partners. It is necessary to keep an account with each partner to show his investments, withdrawals and other transactions with him. The nature of the account is exactly the same as that with an individual owner. It is best practice to keep two accounts, one designated as the Partner's Capital account and the other his Personal account.

PARTNER'S CAPITAL ACCOUNT.

§ 151. The Object of this Account is to show the amount invested at the beginning of the business, subsequent investments, amounts withdrawn from the capital, and his share of the profit or loss at the close of the fiscal period.

Debit the Partner's Capital Account:

¶ 1. For debts owed by him at the beginning of the business and assumed by the business.

¶ 2. For amounts withdrawn from the investment.

¶ 3. For the debit excess of his Personal account, if that account is closed into the Capital account.

¶ 4. For his share of the loss as shown by the debit excess of the Profit and Loss account at the close of the fiscal period.

Credit the Partner's Capital Account:

¶ 5. For his investment at the beginning of the business.

¶ 6. For all subsequent investments.

¶ 7. For the credit excess of his Personal account, if that account is closed into the Capital account.

¶ 8. For his share of the net profit as shown by the credit excess of the Profit and Loss account at the close of the fiscal period.

¶ 9. *The Balance of the Partner's Capital Account* shows the net amount invested, and at the close of the fiscal period, after the books have been closed and posted, it shows his "Present Capital" or interest in the business. It appears on the Financial statement as a part of the difference between the resources and liabilities.

¶ 10. *To Close the Partner's Capital Account.* This account is not closed until all the other accounts, required to be closed at the end of the fiscal period, have been closed into the Profit and Loss account and that account closed. (§ 33.) It will then show all the investments, withdrawals, etc., also his share of the net profit or loss. The difference is the present capital and is entered on the debit side in red ink as follows: the date of closing; the words, "Present Capital;" the amount of the difference. The account is ruled with single and double red lines, footed in black ink, and the "Present Capital" brought down on the credit side in black ink under date of the day following the closing.

C. W. Keeland, Capital

191-						191					
Apr	30	Present Capital	✓	1593	75	Apr.	2		C2	1500	
							30	Profit & Loss	J6	93	75
										1593	75
				1593	75					1593	75
						May	1	Present Capital	✓	1593	75

Illustration No. 47. Partner's Capital Account.

PARTNER'S PERSONAL ACCOUNT.

§ **152. As Stated** in § 148, ¶ 7, the articles of agreement should show the amount of salary or compensation each partner is to receive for his services. This may be withdrawn at the same time the other salaries are paid, but as a general rule it is withdrawn as the partner needs it. In this case, it is necessary to keep an account with him, which must show the amount of his salary and withdrawals. Sometimes the partners will agree to withdraw a certain amount of the net profit as shown by the Financial, and Profit and Loss statements at the close of the fiscal period. Any amounts that are withdrawn would be credited to this account and not to the Capital account.

Debit the Partner's Personal Account:

¶ 1. For all amounts withdrawn which may be (a) by check payable to himself; (b) check payable to someone else, but to be charged to him, or (c), currency taken from the cash register or petty cash drawer.

¶ 2. For any property taken out of stock for his private use, usually charged at cost price.

¶ 3. For amounts received to be used in the interest of the business.

¶ 4. For the credit excess of this account, if it is closed into the Capital account.

Credit the Partner's Personal Account:

¶ 5. For his salary at the end of each month.

¶ 6. For any amounts paid out of his private funds in the interest of the firm.

¶ 7. For any part of the profit to be withdrawn from the business.

¶ 8. For the debit excess of this account, if it is closed into the Capital account.

¶ 9. *The Balance of the Partner's Personal Account* is a resource or a liability, being the amount due the partner for services rendered or due the business on account of overpayment. If the debit side is the larger, it is a resource and is listed with the resources on the Financial statement, appearing after all the active resources and fixed investments have been entered. If the credit side is the larger, it is a liability and is listed among the liabilities on the Financial statement, appearing after all obligations due outside parties have been listed.

¶ 10. *To Close the Partner's Personal Account.* As a general rule, this account will close itself, because the articles of agreement usually state specifically that neither partner is to withdraw more than his salary or that part of the profit which is credited to his account to be withdrawn. However, there may be a good reason for closing this account into the Partners' Capital account, in which case close as follows: Enter on the smaller side in red ink the date of closing; the words, "Capital Account;" the page of the Capital account; the amount of the difference. Rule the account with single and double red lines; foot in black ink; transfer the difference in black ink to the opposite side of the Capital account.

C. M. Keeland, Personal

191– Apr.	11		C3	35	191– Apr	30	40.00	J6	100
	21		C3	25					
				60					

Illustration No. 48. Partner's Personal Account.

EXERCISES IN PARTNER'S ACCOUNTS.

The following exercises are given to familiarize the student with the various debits and credits in Partner's Personal and Capital accounts, as outlined in §§ 151 and 152 and the various paragraphs under them. References are given where the student may be in doubt as to the proper account to debit or credit. These exercises are to be worked out on ledger paper and presented to the teacher for approval. Illustrations Nos. 47 and 48 show the accounts with C. W. Keeland in Exercise No. 43.

EXERCISE No. 43. April 2d, C. W. Keeland and A. D. Munson form a partnership for the purpose of engaging in the retail hay, grain, feed and coal business. Each partner is to invest an equal amount and to share equally the profits or losses and to receive a salary of $100.00 per month.

April 2d, C. W. Keeland invests cash, $1,500.00 (§ 151, ¶ 5); A. D. Munson invests cash, $1,500.00 (§ 151, ¶ 5); 11th, C. W. Keeland withdraws $35.00 (§ 152, ¶ 1); 11th, A. D. Munson withdraws $25.00 (§ 152, ¶ 1); 21st, Keeland and Munson each withdraw $25.00 (§ 152, ¶ 1); 30th, both partners are credited for their salaries for the month. (§ 152, ¶ 5.) The Financial and Profit and Loss statements were made and the net profit found to be $187.49, and each Partner's Capital account is credited with one-half of this amount. (§ 151, ¶ 8.)

Rule the accounts and bring down the Present Capital as shown in illustration No. 47. Illustration No. 48 shows one of the Personal accounts.

EXERCISE No. 44. H. D. Frick and C. L. Thomas form a copartnership for the purpose of engaging in the retail drug business. Each partner is to invest an equal amount and share equally the profits or losses and to receive a salary of $100.00 per month.

April 1st, H. D. Frick invests cash, $2,000.00 (§ 151, ¶ 5); C. L. Thomas invests cash, $2,000.00 (§ 151, ¶ 5); 9th, Frick withdraws $25.00 (§ 152, ¶ 1); 11th, Thomas withdraws $15.00; 16th, Frick takes merchandise out of stock valued at $24.85 (§ 152, ¶ 2); 20th, Thomas takes merchandise out of stock valued at $10.50 (§ 152, ¶ 2); 25th, Thomas invests $1,000.00 and Frick $900.00 (§ 151, ¶ 6); 27th, Thomas withdraws $25.00; 28th, Frick withdraws $10.00; 30th, each partner is credited for his salary for the month.

May 9th, Frick and Thomas each withdraw $300.00 from the amount invested (§ 151, ¶ 2); 12th, Frick takes merchandise out of stock valued at $16.50 (§ 152, ¶ 2); 19th, gave Jones Bros. a check for $36.50 to pay an account owed by Thomas (§ 152, ¶ 1); 20th, Thomas withdraws $15.00; Frick takes merchandise out of stock valued at $12.80; 25th, Thomas takes merchandise out of stock valued at $18.65; 27th, Thomas and Frick each withdraw $30.00; 31st, each partner is credited with his salary for the month (§ 152, ¶ 5); 31st, the Financial, and Profit and Loss statements are made and the net profit found to be $826.92; each Partner's Capital account is credited with one-half of this.

Foot and rule the accounts and bring down the Present Capital as shown in illustration No. 47.

EXERCISE No. 45. E. E. Admire, J. H. Lanning and A. B. Johnston form a copartnership for the purpose of engaging in the retail hardware business. Each partner is to invest an equal amount and the profits or losses are to be shared equally. Each is to receive a salary of $100.00 per month.

July 1st, E. E. Admire invests cash, $2,000.00; merchandise, $1,865.40; personal accounts, $269.50; notes receivable, $398.40 (§ 151, ¶ 5). J. H. Lanning invests cash, $2,500.00; real estate, $1,000.00; notes receivable, $850.70; accounts receivable, $562.50 (§ 151, ¶ 5). The firm assumes a note of $350.00, which he owes at the First National Bank (§ 151, ¶ 1). A. B. Johnston invests cash, $3,000.00; notes receivable, $1,000.00; accounts receivable, $500.00 (§ 151, ¶ 5). July 9th, Admire withdraws $10.00; Johnston takes merchandise out of stock valued at $16.50; 14th, Lanning withdraws $25.00; 20th, Admire takes merchandise out of stock valued at $19.50; Lanning withdraws $25.00; 25th, Johnston withdraws $30.00; 26th, Admire takes merchandise from stock valued at $27.50; 28th, Lanning withdraws $15.00; 29th, Johnston takes merchandise from stock, $19.60; 31st, each partner is credited with his salary for the month (§ 152, ¶ 5).

August 9th, each partner withdraws $300.00 from the amount invested (§ 151, ¶ 2); 11th, Admire and Johnston each withdraw $25.00; 14th, Lanning withdraws $50.00; 20th, Admire takes merchan-

dise from stock, $16.75; 22d, gave Mace & Brown a check for $18.40 to pay an account owed by Johnston; 23d, each partner invests an additional $1,000.00 (§ 151, ¶ 6); 27th, gave S. D. Anderson $25.00 to apply on an account owed them by Admire; 28th, each partner withdraws $25.00; 31st, the Financial and Profit and Loss statements are made and the net profit found to be $1,827.48; each Partner's Capital account is credited with $500.00 (§ 151, ¶ 8) of this and his Personal account with the balance. (§ 152, ¶ 7.)

Foot and rule each account and bring down the Present Capital as shown in illustration No. 47.

QUESTIONS.

1. Define partnership. (§ 145.)
2. What is the object of a partnership? (§ 146.)
3. Define the capital of a partnership. (§ 147.)
4. What is the articles of copartnership? (§ 148.)
5. What is meant by the time? (§ 148, ¶ 1.)
6. Can the partners use any desired name for the partnership? (¶ 2.)
7. Name an exception. (¶ 2.)
8. Is it necessary for each partner to invest an equal amount? (¶ 3.)
9. What is meant by place of business? (¶ 4.)
10. What is meant by the nature of the business? (¶ 5.)
11. Why should the duties of each partner be mentioned in the contract? (¶ 6.)
12. Why should the salary of each partner be mentioned in the contract? (¶ 7.)
13. Why should the division of the profits be mentioned in the contract? (¶ 8.)
14. Name some special conditions that it is well to include in the agreement. (¶ 9.)
15. What is the difference between keeping books for a partnership and for an individual? (§ 149.)
16. Why is it best to keep a separate account for each partner for the amount invested? (§ 150.)
17. Define Partner's Capital account. (§ 151.)
18. Name the four debits. (§ 151, ¶¶ 1–4.)
19. Name the four credits. (§ 151, ¶¶ 5–8.)
20. Define Partner's Personal account. (§ 152.)
21. Is it necessary to keep a personal account with each partner when his salary is paid at the same time other employees receive theirs and the net profit is closed into his capital account? (§ 152.)
22. Name three debits relative to the Partner's Personal account. (§ 152, ¶¶ 1–4.)
23. Name the four credits. (¶¶ 5–8.)
24. When is a Partner's Personal account closed? (§ 152.)

SPECIAL ACCOUNTS WITH MERCHANDISE.

§ 153. As Stated in § 31, it is not the best practice to keep only one account with merchandise and debit and credit it as explained in ¶¶ 1—7, under that section. As many bookkeepers keep only one account, it was deemed best to explain the method of keeping the merchandise account under such conditions. When only one account is kept, it is necessary to indicate in the explanation columns the reason for each amount debited and credited, otherwise the bookkeeper will have to refer to the book of original entry when he makes the Profit and Loss statement. The best results are obtained when the following accounts are kept: Purchases, Sales, Inventory, Freight In, Purchases Discount, and Sales Discount.

PURCHASES ACCOUNT.

§ **154. The Object of this Account** is to show the invoice cost of merchandise received, and any subsequent charges that increase this cost, unless special accounts are kept with these charges.

Debit Purchases Account:

¶ 1. For the cost of all merchandise purchased for the purpose of sale. This is represented by each purchase, or the totals of the purchases book and the purchases column in the cash book.

¶ 2. For the cost of all freight on this merchandise, unless an account is kept with Freight In. (§ 156.)

¶ 3. For any additional cost of merchandise such as drayage from the freight station to the warehouse, or charges made necessary in order to place the merchandise on sale, unless an account is kept with Drayage.

Credit Purchases Account:

¶ 4. For the cost of all goods returned by us to the seller for credit.

¶ 5. For all rebates or allowance made by the seller to us for damaged goods, shortages, or overcharges, if the full amount was charged and no special account kept with Rebates and Returns. (These credits are usually represented by a credit bill (§ 205.) sent to us.)

*¶ 6. For deductions allowed us for prompt payment as indicated by the terms of the invoice, unless a special account is kept with Purchases Discount. (§ 159.)

¶ 7. For the value of goods taken from stock by a partner, if charged at cost price.

¶ 8. For the value of goods shipped on consignment, (§ 218.) if charged at cost price.

*NOTE.—Some accountants consider deductions for prompt payment as interest on the capital invested and not as a reduction of the cost of merchandise purchased. This is a question to be decided by those interested and the conditions under which the business is being conducted.

¶ 9. *The Difference between the two sides of this Account,* at any time other than the close of the fiscal period, represents the net cost of the goods purchased since the beginning of the present fiscal period. It is not a resource if part of the goods have been sold, which is usually the case. It is necessary to take stock to ascertain the present value of the goods on hand. The Purchases account and the present inventory are both used in making the Trading statement.

¶ 10. *To Close the Purchases Account.* The difference of this account will always be a debit balance, and is closed into the Trading account. If special accounts are kept with the cost of freight and the cost of drayage and other charges (¶¶ 2 and 3), the difference will show the invoice cost of goods purchased. If all charges are made direct to the Purchases account, the difference will show the total cost of goods purchased. The nature of the business will determine the best practice for keeping these accounts. After the Trading statement has been made and proved to be correct by the Profit and Loss, and Financial statements, the difference of the Purchases account is closed into the Trading account by a journal entry. When the entry in the journal is posted, the account will balance and is ruled with single and double red lines and the totals entered in black ink. If there is but one entry on each side, double lines only may be used.

Purchases

191 Apr.	30		P.4	5125	83	191 Apr.	30	Trading a/c	J.6	5125	83

Illustration No. 49. Purchases Account.

SALES ACCOUNT.

§ 155. **The Object of this Account** is to show the amounts received from sales of merchandise. Usually only one account is kept with sales, but if it is desired to know the sales from different departments, a separate account must be kept with each.

Debit the Sales Account:

¶ 1. For the selling price of all merchandise returned by customers for credit.

¶ 2. For rebates allowed by us on account of damaged goods, overcharges or shortages, if the full amount is credited to the Sales account, unless a special account is kept with Rebates and Returns.

*¶ 3. For deductions allowed for prompt payment of amounts due from customers, as indicated by the terms, unless a special account is kept with Sales Discount. (§ 160.)

¶ 4. For amount of errors made in shipping when a customer is charged with goods he does not receive.

Credit the Sales Account.

¶ 5. For (a) each cash or credit sale, or (b) at the end of the month for the total cash sales, as shown by the "Sales" column in the cash book, and the credit sales as shown by the total of the sales book.

¶ 6. For amount of errors in shipping when a customer receives more merchandise than was charged to him.

*NOTE.—Some accountants consider deductions made by customers as an interest charge against the capital invested and not a reduction in the returns from sales. This is a question that must be decided by those interested and the conditions under which the business is being conducted.

¶ 7. *The Difference between the two sides of this Account* will be a credit and represents the net sales from the beginning of the current fiscal period. It is used in making the Trading statement.

¶ 8. *To Close the Sales Account.* The credit side of this account will always be the larger and represents the net sales. After the Trading statement has been made and proved to be correct by the Profit and Loss, and Financial statements, the balance of this account is closed into the Trading account by a journal entry. When this entry is posted, the account will balance and is ruled with single and double red lines and footed in black ink.

Sales

191 Apr.	30	Trading a/c	J6	4195	71	191 Apr.	30		C2	1287	50
									S	2908	21
										4195	71
				4195	71					4195	71

Illustration No. 50. Sales Account.

FREIGHT IN ACCOUNT.

§ 156. **Freight Paid on Goods Purchased** for sale is a part of the cost of these goods, and must be considered as such in estimating the selling price. Amounts paid for freight may be charged direct to the Purchases account or to a special Freight In account. As mistakes will occur in rendering freight bills, it is best practice to keep a separate account, so that rebates for freight may be credited to this account and the difference will show the net amount paid for freight. Freight paid on goods purchased is entirely different from that paid on goods delivered to customers (Freight Out, § 259), and these amounts must be represented by separate accounts; one represents a part of the cost of goods purchased, and the other a part of the selling expense.

Debit the Freight In Account:

¶ 1. For all amounts paid for freight on merchandise purchased for sale. This includes freight prepaid and charged on the invoice.

Credit the Freight In Account:

¶ 2. For any rebates allowed for overcharges on freight if the amount was charged to this account.

¶ 3. For any amount that reduces the cost of freight.

¶ 4. *The Difference between the two sides of this Account* shows the net amount paid for freight and increases the cost of merchandise that amount. It appears on the Trading statement as a part of the cost of the goods purchased.

¶ 5. *To Close the Freight In Account.* After the Trading statement has been made and proved to be correct by the Profit and Loss, and Financial statements, the difference of this account is closed into the Trading account by a journal entry. When this entry is posted, the account will balance and is ruled with single and double red lines and footed in black ink.

Freight In

191					191				
Apr.	2		C2	208 80	Apr.	30	Trading a/c	J6	1233 97
	12		C2	457 74					
	30		C2	567 43					
				1233 97					
				1233 97					1233 97

Illustration No. 51. Freight In Account.

INVENTORY ACCOUNT.

§ 157. **The Object of this Account** is to show the value of goods on hand at the beginning of the fiscal period. The account is necessary when separate accounts are kept with Purchases and Sales.

Debit the Inventory Account:

¶ 1. For the value of salable merchandise on hand at the beginning of the business.

¶ 2. For the value of salable merchandise on hand at the end of the current fiscal period.

Credit the Inventory Account:

¶ 3. At the close of each fiscal period with the cost of salable merchandise on hand at the beginning of the period. (This is the same credit as the debit described in ¶ 1.)

¶ 4. *The Difference between the two sides of this Account* shows the value of goods on hand at the beginning of the fiscal period, and corresponds to the amount of goods on hand as shown by the last inventory. It is used in making the Trading statement, and is added to the net cost of goods purchased to show the total cost.

¶ 5. *To Close the Inventory Account.* After the Trading statement has been made and proved to be correct by the Profit and Loss, and Financial statements, the accounts affecting the Trading statement are closed into the Trading account by a journal entry. When this is posted, the amount with which the Inventory account is credited will be the same as that with which it was debited at the end of the previous fiscal period and will balance. It is ruled by drawing double red lines across all columns except the explanation columns. (See Note, page 138.)

The inventory at the end of the current fiscal period is used in making the Trading statement. When the journal entry, to close the Trading account (§ 200, ¶ 1), is made, the Inventory account is debited for the value of the present inventory, this debit being entered below the ruled lines. Thus after the ledger is closed this account shows the present inventory.

Inventory

191- Apr.	30	Mdse. in stock Apr. 30	J.6	2945	94	191- May	31	Mdse. in stock Apr. 30	J.12	2945	94
May	31	Mdse. in stock May 31	J.6	4929	25						

Illustration No. 52. Inventory Account.

NOTE.—When accounts other than personal accounts have only one amount on each side, the single line may be omitted in closing as there are no footings to enter.

MERCHANDISE DISCOUNT.

§ **158. It is Customary in Business** to allow a special discount for prompt payment of long-time purchases or sales. This discount is indicated in the terms of the invoice or bill (§ 187). This discount is usually termed "Merchandise Discount," to distinguish it from interest paid in advance, which is sometimes termed "Discount."

Discount deducted for prompt payment may be considered as reducing the cost of merchandise purchased, or the returns from sales of merchandise; or as affecting the capital invested. This question must be decided by those interested or the conditions under which the business is being conducted. In this set, deductions for prompt payment will be considered as reducing the cost of merchandise purchased or the returns from sales.

One account may be kept with discounts deducted by the business for prompt payment of obligations, and those allowed to customers on bills; but it is the best practice to keep two separate accounts. When this is done, the discount deducted by the business is termed "Purchases Discount" and that allowed to customers, "Sales Discount."

PURCHASES DISCOUNT ACCOUNT.

§ **159. The Object of this Account** is to keep a record of all deductions made for prompt payment of obligations owed by the business. These deductions are made according to the terms on the invoices. (§ 187.)

Debit the Purchases Discount Account:

¶ 1. For the amount of an error in our favor made by us in deducting discount and afterwards reported.

¶ 2. For the amount of discount deducted by us and not allowed by the person or firm to whom the remittance is sent.

Credit the Purchases Discount Account:

¶ 3. For the difference between the face of the invoice and the amount of our check when the deduction is made, according to terms of the invoice. (If a special column is provided in the cash book, the total is posted at the end of the month.)

¶ 4. *The Difference between the two sides of this Account* shows the net amount of discount deducted for prompt payment of obligations. It is used in making the Trading statement, and is deducted from the cost of merchandise purchased to ascertain the net cost of merchandise.

¶ 5. *To Close the Purchases Discount Account.* This account is not closed until the end of the fiscal period, and after the Profit and Loss statement has been made and proved to be correct by the Financial statement. When the journal entry, to close the Trading account, is made and posted, this account will balance. It is ruled with single and double red lines and footed with black ink.

Purchases Discount

191						191					
Apr.	30	Trading a/c	J.6	44	65	Apr.	27		J.15	17	20
							30		C.2	27	45
										44	65
				44	65					44	65

Illustration No. 53. Purchases Discount Account.

SALES DISCOUNT ACCOUNT.

§ **160. The Object of this Account** is to keep a record of all discounts deducted by customers for prompt payment of bills purchased, as indicated by the terms of the bill.

Debit Sales Discount Account:

¶ 1. With the difference between the amount of the remittance received from a customer and the face of the bill, when this remittance is accepted for full payment of the bill as indicated by the terms. (See § 188.) (If a special column is provided in the cash book, the total is posted at the end of the month.)

Credit Sales Discount Account:

¶ 2. For an error made by a customer in his favor in deducting the discount, when the error is not discovered until after the credit has been allowed.

¶ 3. *The Difference of this Account* shows the net amount of discount allowed customers for prompt payment of goods purchased. The debit side is the larger. It is used in making the Trading statement, and is deducted from the gross sales to determine the net returns from merchandise sold.

¶ 4. *To Close the Sales Discount Account.* This account is not closed until the end of the fiscal period, and after the Trading statement has been made and proved to be correct by the Financial, and Profit and Loss statements. When the journal entry, to close the Trading account (§ 200, ¶ 1), is made and posted, this account will balance. It is then ruled with single and double red lines, and footed in black ink.

Sales Discount

191						191					
May	25		C7	3	35	May	31	Trading a/c	J6	7	05
	29		C7	3	70						
				7	05						
				7	05					7	05

Illustration No. 54. Sales Discount Account.

EXERCISES IN MERCHANDISE ACCOUNTS.

The following exercises are given to the student to illustrate the various debits and credits as outlined in §§ 154, 155, 156, 157, 159 and 160 and the various paragraphs under each. Reference is given where the student may be in doubt as to the proper account to debit or credit. These exercises are to be worked out on ledger paper and approved by the teacher. Each exercise will require four or five accounts.

EXERCISE No. 46. April 2d, paid freight on goods purchased, $208.80 (§ 156, ¶ 1); 13th, paid freight on goods purchased, $457.74; 27th, received credit for $17.20, discount on draft drawn for goods purchased (§ 159, ¶ 3); 30th, paid freight on goods purchased, $567.43; 30th total purchases discount, per purchases discount column in the cash book, $27.45 (§ 159,¶ 3); 30th, cash sales for the month, per sales column in the cash book, $1,287.50 (§ 155, ¶ 5); 30th, credit sales, per sales book, $2,908.21 (§ 155,¶ 5); 30th, credit purchases, per purchases book, $5,125.83 (§ 154,¶ 1).

Foot and rule each account. Enter the balance on the smaller side and write with black ink in the explanation column "Trading Account," as the balance of each of these accounts is closed into the Trading account by a journal entry. See illustrations Nos. 49, 50, 51 and 53.

EXERCISE No. 47. January 2d, merchandise on hand, $5,627.85 (§ 157, ¶ 1); 3d, bought on account, $396.35 (§ 154, ¶ 1); 5th, sold on account, $162.95 (§ 155, ¶ 5); 6th, sold for cash, $236.95 (§ 155, ¶ 5); 7th, bought for cash, $397.62 (§ 154, ¶ 1); 7th, paid freight on goods purchased, $45.60 (§ 156, ¶ 1); 10th, returned a part of goods purchased and received credit for $56.29 (§ 154, ¶ 4); 12th, a customer returned a part of goods sold him and we gave him credit for $10.65 (§ 155, ¶ 1); 13th, deducted $13.50 from an invoice due a creditor for prompt payment (§ 159, ¶ 3); 13th, sold on account, $427.65; 14th, sold for cash, $469.52; 15th, bought on account, $927.65; 15th, paid freight on goods purchased, $29.85 (§ 156, ¶ 1); 16th, allowed a customer credit of $18.65 for overcharge on a sale (§ 155, ¶ 2); 18th, bought on account, $216.75; 19th, paid freight on goods purchased, $16.50; 21st, bought for cash, $219.27; 23d, sold on account, $565.92; 23d, bought for cash, $156.97; 28th, returned goods to a creditor and received credit for $41.27 (§ 154, ¶ 4); 30th, sold for cash, $327.65.

February 9th, purchased on account, $219.65; 9th, sold on account, $327.65; 14th, sold for cash, $156.90; 16th, paid freight on goods purchased, $72.65; 18th, bought on account, $250.12; 19th. shipped for sale on consignment, $150.70 (§ 154, ¶ 8); 19th, allowed a customer credit of $25.60 for goods returned (§ 155, ¶ 1); 21st, deducted $12.50 from an invoice paid to a creditor for prompt payment (§ 159, ¶ 3); 22d, sold on account, $216.25; 23d, purchased on account, $429.80; 23d, allowed a customer a discount of $16.80 for prompt payment of a bill (§ 160, ¶ 1); 24th, sold on account, $209.12; 24th, allowed a customer credit of $16.37 for an overcharge (§ 155, ¶2); 25th, purchased on account, $508.12; 26th, sold for cash, $426.90; 27th, allowed a customer a discount of $5.90 for prompt payment of a bill; 27th, returned goods purchased and was allowed a credit for their value, $19.55; 28th, allowed a customer a credit of $14.20 for goods returned by him; 28th, shipped for sale on consignment, $195.50 (§ 154, ¶ 8); 28th, deducted $14.29, discount on an invoice due a creditor; 28th, merchandise on hand, $5,681.37 (§ 157, ¶ 2).

Foot and rule each account. Enter the balance on the smaller side and write with black ink in the explanation column "Trading Account" (Inventory account excepted, illustration No. 52), as the balance of each of these accounts is closed into the Trading account by a journal entry.

EXERCISE No. 48. September 1st, inventory, $16,427.95 (§ 157, ¶ 1); 16th, paid freight on goods purchased, $1,462.79 (§ 156, ¶ 1); 30th, paid freight on goods purchased, $1,072.45; 30th, cash sales for the month per sales column in the cash book, $3,624.78 (§ 155, ¶ 5); 30th, credit sales, per sales book, $9,479.21 (§ 155, ¶ 5); 30th, total purchases, per purchases book, $4,629.87 (§ 154, ¶ 1).

October 5th, deducted discount from an invoice purchased, $86.27; 9th, returned part of goods purchased and received credit for $142.87; 12th, allowed a customer a discount of $26.75 for prompt payment of a bill; 13th, a customer returned a part of goods sold him and we allowed him credit for $36.82; 15th, paid freight bills for goods purchased, $1,862.75; 20th, deducted discount from an

invoice purchased as per terms of the bill, $72.56; 21st, a customer reports a part of goods sold him not as good as sample and we allowed him a credit of $27.84; 24th, we returned a part of goods purchased and are allowed a credit of $109.34 (§ 154, ¶ 4); 25th, a creditor notified us that there was a mistake in our calculations of deducting discount and states that our account has been debited with $10.00, the amount of error (§ 159, ¶ 1); 26th received $9.72 from the railroad company for an error in a freight bill (§ 156, ¶ 2); 27th, a customer deducted $18.75 discount for prompt payment of a bill as per terms; 28th, a customer returns a part of goods sold him and is given credit for $57.82; we deduct $61.85 discount from an invoice paid as per terms of the invoice; 30th, we have just discovered that a customer made a mistake in calculating discount and have charged his account with $3.50, the amount of the error (§ 160, ¶ 2); 31st, shipped on consignment (cost price), $280.50 (§ 154, ¶ 8); 31st, paid freight bills on goods, $1,627.92; 31st, cash sales, per sales column in the cash book, $4,592.81; credit sales, per sales book, $10,627.45; 31st, cash purchases, per purchases column in the cash book, $3,629.87; 31st, total purchases, per purchases book, $9,762.98; 31st, merchandise on hand, as per inventory, $14,693.21 (§ 157, ¶ 2).

Foot and rule each account and enter the balance on the smaller side and write in the explanation column "Trading Account," as the balance of each of these accounts is closed into the Trading account by a journal entry.

QUESTIONS.

1. What is meant by special accounts with merchandise? (§ 153.)
2. Define Purchases account. (§ 154.)
3. What is the invoice cost of merchandise? (§ 154, ¶ 1.)
4. Why is freight charges on goods purchased a part of the cost price? (§ 154, ¶ 2.)
5. What is the gross cost of goods purchased? (§ 154, ¶¶ 1—3.)
6. If merchandise is returned to the person from whom it was purchased, what account is credited? Why? (§ 154, ¶ 4.)
7. Why are rebates and shortages of merchandise purchased credited to the Purchases account? (§ 154, ¶ 5.)
8. Why does discount for prompt payment of invoices reduce the cost of goods purchased? (§ 154, ¶ 6.)
9. When a partner takes goods out of stock at cost price, what account is credited? (§ 154, ¶ 7.)
10. Why is the Purchases account credited? (§ 154, ¶ 7.)
11. When goods are shipped on consignment, what account is credited? (§ 154, ¶ 8.)
12. Define the Sales account. (§ 155.)
13. Name the four debits. (§ 155, ¶¶ 1—4.)
14. Name the two credits. (§ 155, ¶¶ 5 and 6.)
15. Define the Freight In account. (§ 156.)
16. For what is this account debited? (§ 156, ¶ 1.)
17. For what is it credited? (§ 156, ¶ 2.)
18. Give a practical example of a credit to this account.
19. Define Inventory account. (§ 157.)
20. What is meant by cost of goods on hand at the beginning of the fiscal period? (§ 157, ¶ 1.)
21. What is meant by the cost of goods on hand at the end of the fiscal period? (§ 157, ¶ 2.)
22. For what is the Inventory account credited? (§ 157, ¶ 3.)
23. What is meant by merchandise discount? (§ 158.)
24. Define Purchases Discount account. (§ 159.)
25. For what is it debited? (§ 159, ¶¶ 1, 2.)
26. For what is it credited? (§ 159, ¶ 3.)
27. Define Sales Discount account. (§ 160.)
28. For what is it debited? (§ 160, ¶ 1.)
29. For what is it credited? (§ 160, ¶ 2.)

SPECIAL ACCOUNTS WITH FIXED INVESTMENTS.

§ **161. As Explained** in § 21, ¶ 2, it is necessary to purchase certain property for use in the business. The nature of this property determines the name of the account. In this set, the student will have three different kinds of property purchased for use in the business and will keep three accounts as follows: Office Equipment, Store Fixtures, and Delivery Equipment.

There are *two* methods of keeping these accounts: One is explained in § 122, ¶¶ 1—5, and illustrated in the preceding set; the other is explained in §§ 162—167, and illustrated in this set.

OFFICE EQUIPMENT ACCOUNT.

§ **162. The Object of this Account** is to keep a record of the cost of property purchased for use in the office, and it includes all office furniture, such as desks, typewriters, safes, files, bookcases, chairs, tables, etc.

Debit Office Equipment Account:

¶ 1. For the cost value of any office furniture on hand at the beginning of the business.

¶ 2. For the cost value of any office furniture purchased during the fiscal period, whether for new equipment or to replace some equipment that has become useless.

Credit Office Equipment Account:

¶ 3. For the cost price of any property sold, the value of which was charged to this account. (If the selling price is less than the cost, the difference is charged to the Reserve for Depreciation account.)

¶ 4. For the cost of any article replaced, destroyed or discarded. (At the same time debit the Reserve for Depreciation account.)

¶ 5. *The Balance of this Account* should at all times show the cost value of the office equipment on hand. It appears on the Financial statement after the active resources have been listed.

¶ 6. *To Close the Office Equipment Account.* This account is not closed unless it is desired to transfer the balance to a new page or bring it down on the same page. When closed under these conditions, the balance is entered on the credit side with red ink under date of closing, the word "Balance" being written in the explanation column. The account is ruled with single and double red lines, footed in black ink, and the balance brought down on the debit side, or transferred to a new page, under date of the day following the closing, this entry being made in black ink.

Office Equipment

191 Apr	4	Desk	C3	35							
		Chair		5							
		Bk's Desk		22							
		Stool		3	50						
		6 chairs @ $2.00		12							
		Bookcase		23	50						
	6	Safe	J1	200							
	7	Office partition		165	50						
				466	50						

Illustration No. 55. Office Equipment Account.

RESERVE FOR DEPRECIATION OF OFFICE EQUIPMENT ACCOUNT.

§ 163. **The Object of this Account** is to provide a reserve fund to replace the property when it has become useless, as all property purchased for use will decrease in value on account of its being used. If some provision is not made for this decrease in value at the end of each fiscal period, the true loss or gain will not be shown. The amount that the property decreases in value depends largely on the use of the property, and will have to be determined by those interested in the business. When this amount has been determined, the Reserve for Depreciation account is credited, and the difference of the Property account, less the balance of the Depreciation account, will show the actual present value of the property.

Debit Reserve for Depreciation Account:

¶ 1. With the cost of any article charged to the Office Equipment and subsequently replaced.

¶ 2. With the difference between the cost and selling price of any article sold or exchanged, the value of which was charged to the Office Equipment account at the time of the purchase.

¶ 3. With the cost of any article debited to the Office Equipment account and subsequently destroyed or discarded.

Credit Reserve for Depreciation Account:

¶ 4. At the close of each fiscal period with the amount of depreciation as designated by those interested in the business. (The General Administrative Expense account is charged with this depreciation, because the amount of the expense has been increased by using the property.)

See note at bottom of page.

¶ 5. *The Balance of this Account* will show the net amount reserved for depreciation of office equipment. It is deducted from the cost price of the office equipment, as shown by the balance of that account, this deduction being made on the Financial statement.

¶ 6. *To Close the Reserve for Depreciation of Office Equipment Account.* This account is not closed unless it is desired to bring the balance down or transfer it to a new page. When closed under these conditions, the balance is entered with red ink on the debit side under date of closing, the word "Balance" being written in the explanation column. The account is then ruled with single and double red lines, footed in black ink, and the balance brought down on the credit side on the same page, or transferred to a new page, this entry being made with black ink.

Reserve for Depreciation Office Equipment

					191 Apr	30	5%	J6	23	33

Illustration No. 56. Reserve for Depreciation of Office Equipment Account.

NOTE.—If property charged to some fixed investment account is unexpectedly destroyed, stolen or dies, a journal entry is made debiting Profit and Loss with the loss and the Reserve for Depreciation account with the depreciation, and crediting the fixed investment account representing the value of the property, with the cost price of the property. It is necessary to make this entry, because the cost value of this property is included in the debit side of the fixed investment account to which it was charged when purchased. If property is destroyed, stolen, or dies it is no longer in possession of the business, and as nothing was received for it, it is a loss. However, the loss to the business will not be the cost value, but the cost value less the amount credited to the depreciation account. To illustrate: January 1, 1910, a typewriter is purchased for \$100.00 and charged to the Office Equipment account. At the end of the year, December 31st, 1910, a depreciation of 10% is allowed for use of office equipment. December 31, 1911, another depreciation of 10% is allowed. In January, 1912, the typewriter is stolen and not recovered. The bookkeeper makes a journal entry debiting Profit and Loss for \$80.00, present value of the typewriter (\$100.00—\$10.00—\$10.00), and Reserve for Depreciation of Office Equipment for \$20.00, the amount charged off as depreciation, and crediting Office Equipment for \$100.00, the cost of the typewriter.

STORE FIXTURES ACCOUNT.

§ 164. **The Object of this Account** is to show the cost of property used in the storeroom, and it includes shelving, partitions, show cases, scales, etc. The nature of this account is the same as the Office Equipment and the various debits and credits are the same.

Debit Store Fixtures Account:

¶ 1. With the value of any store fixtures on hand at the beginning of the business.

¶ 2. With the cost of any store fixtures purchased during the fiscal period, whether for new equipment or to replace some that has become useless.

Credit Store Fixtures Account:

¶ 3. With the cost price of any property sold, the value of which was charged to this account. (If the selling price is less than the cost, the difference is charged to the Reserve for Depreciation account.)

¶ 4. With the cost of any article replaced, destroyed or discarded. (At the same time debit the Reserve for Depreciation account.)

¶ 5. *The Balance of this Account* should at all times show the cost value of the store fixtures on hand, and is a resource. It appears on the Financial statement after the active resources have been listed.

¶ 6. *To Close the Store Fixtures Account.* This account is not closed except as explained in § 162, ¶ 6, and when these conditions exist, it is closed in the same manner.

RESERVE FOR DEPRECIATION OF STORE FIXTURES ACCOUNT.

§ 165. **It is Necessary to Set Aside a Reserve** for decrease in value of store fixtures just the same as Office Equipment. The debits and credits affecting this account are the same.

Debit Reserve for Depreciation Account:

¶ 1. With the cost of any article charged to the Store Fixtures account and subsequently replaced.

¶ 2. With the difference between the cost and selling price of any article sold, or exchanged, the value of which was charged to the Store Fixtures account at the time of the purchase.

¶ 3. With the cost of any article debited to the Store Fixtures account and subsequently destroyed or discarded.

Credit Reserve for Depreciation Account:

¶ 4. At the close of each fiscal period with the amount of depreciation as designated by those interested in the business. (The General Administrative Expense account is charged for this depreciation because the amount of the expense has been increased by using the property.)

See note at bottom of page 143.

¶ 5. *The Balance of this Account* will show the net amount reserved for depreciation of store fixtures. It is deducted from the cost price of the store fixtures, as shown by the balanec of that account, this deduction being made on the Financial statement.

¶ 6. *To Close the Reserve for Depreciation of Store Fixtures Account.* This account is not closed except as explained in § 163, ¶ 6, and when these conditions exist it is closedin the same manner.

DELIVERY EQUIPMENT ACCOUNT.

§ 166. **The Object of this Account** is to show the cost of all property purchased for use in delivering goods. It includes teams, wagons, harness, automobiles, or any other conveyances that may be used by the business in delivering goods to customers. The nature of the account is exactly the same as the Office Equipment, and it is debited and credited in the same manner.

Debit Delivery Equipment Account:

¶ 1. With the value of any delivery equipment on hand at the beginning of the business.

¶ 2. With the cost value of any delivery equipment purchased during the fiscal period, whether for new equipment or to replace some equipment that has become useless.

Credit Delivery Equipment Account:

¶ 3. With the cost price of any property sold, the value of which was charged to this account. (If the selling price is less than the cost, the difference is charged to the Reserve for Depreciation account.)

¶ 4. With the net cost of any article replaced, destroyed or discarded. (At the same time debit the Reserve for Depreciation account.)

¶ 5. *The Balance of this Account* should at all times show the cost value of the delivery equipment on hand. It appears on the Financial statement after the active resources have been listed.

¶ 6. *To Close the Delivery Equipment Account.* This account is not closed except as explained in § 162, ¶ 6, and when these conditions exist, it is closed in the same manner.

RESERVE FOR DEPRECIATION OF DELIVERY EQUIPMENT ACCOUNT.

§ 167. **Property Purchased for Delivery Purposes** will decrease in value even more rapidly than that for office equipment or store fixtures. The various debits and credits of the Reserve for Depreciation account are determined in the same manner as the Office Equipment account.

Debit Reserve for Depreciation Account:

¶ 1. With the cost of any articles charged to the Delivery Equipment account and subsequently replaced.

¶ 2. With the difference between the cost and selling price of any article sold, the value of which was charged to the Delivery Equipment account at the time of the purchase.

¶ 3. With the cost of any article debited to the Delivery Equipment account and subsequently destroyed or discarded.

Credit Reserve for Depreciation Account:

¶ 4. At the close of each fiscal period with the amount of depreciation as designated by those interested in the business. (The Selling Expense account is charged for this depreciation, because the amount of this expense has been increased by using the property.) See note at bottom of page 143.

¶ 5. *The Balance of this Account* will show the net amount reserved for depreciation of delivery equipment. It is deducted from the cost price of the delivery equipment, as shown by the balance of that account, this deduction being made on the Financial statement.

¶ 6. *To Close the Reserve for Depreciation of Delivery Equipment Account.* This account is not closed except as explained in § 163, ¶ 6, and when these conditions exist, it is closed in the same manner.

EXERCISES IN FIXED INVESTMENT ACCOUNTS.

The following exercises are given to illustrate the various debits and credits of the Office Equipment account (§ 162); Store Fixtures (§ 164), and Delivery Equipment (§ 166) accounts; also the Depreciation accounts for each as explained in §§ 163, 165, and 167, and the various paragraphs under each. The student will work these out on ledger paper and hand to the teacher for approval.

The exercises in fixed investment accounts for April are only partially illustrated by the Office Equipment account and the Reserve for Depreciation of Office Equipment. The method of closing the others is exactly the same. References are given where the student may be in doubt as to the proper account to debit or credit. The name of the property purchased is written in the explanation column.

EXERCISE No. 49. April 4th, bought one roller top desk, $35.00; one chair, $5.00; one bookkeeper's desk, $22.00; one stool, $3.50; six chairs, $12.00; one sectional bookcase, $23.50 (§ 162, ¶ 2); 4th, bought one horse named Charlie, $100.00; one horse named Bob, $90.00; one horse named Joe, $75.00; one horse named Sam, $85.00; one Studebaker wagon, $45.00; one American wagon, $40.00; harness, $15.00 (§ 166, ¶ 2); coal scales, $150.00 (§ 164, ¶2); 6th, bought one fire and burglar proof safe, $200.00 (§ 162, ¶ 2); 7th, paid $165.50 for new partition in office (§ 162, ¶ 2); 16th, bought one Fairbanks scales, $54.00 (§ 164, ¶ 2); 31st, this being the end of the fiscal period, the Reserve for Depreciation of each of the three accounts is credited with 5% of the amount of the debit side of the fixed investment account. (§§ 163, 165, and 167, ¶ 4 in each.) The accounts are footed but not ruled. See illustrations Nos. 55 and 56.

EXERCISE No. 50. May 1st, on hand, safe, $150.00; desk, $30.00; chair, $5.00; typewriter, $90.00 (§ 162, ¶ 1); showcase, $40.00; shelving in the storeroom, $75.00; scales in the storeroom, $60.00 (§ 164, ¶ 1); one old Hickory wagon, $50.00; one horse named Charley, $100.00; one mule named Maud, $100.00; harness, $25.00 (§ 166, ¶ 1); the Reserve for Depreciation of each of these accounts is credited with 10% of the cost value, being the deductions made at the close of the preceding fiscal period (§§ 163, 165, and 167, ¶ 4 in each).

EXERCISE No. 51. October 1st, on hand, safe, $140.00; typewriter, $60.00; roller top desk, $40.00; bookcase, $30.00; files, $30.00; scales, $60.00; trucks, $20.00; four counters, $75.00; shelving, $45.00 (§ 164, ¶ 1); one horse named George, $125.00; one horse named Darby, $125.00; one Peoples wagon, $70.00; harness, $50.00; the Reserve for Depreciation of each of these accounts is credited with 10% of the cost value, being the deductions made at the close of the preceding fiscal period.

October 10th, paid $35.00 for bookkeeper's desk and $5.00 for stool; 15th, bought a show case for $30.00; 18th, sold two counters for $15.00 each (cost price, $18.75 each); (credit, § 162, ¶ 3; debit, § 163, ¶ 2); 20th, exchanged old typewriter for a new one and paid $50.00 difference (value of new machine, $100.00); (credit, § 162, ¶ 3, for $60.00; debit, § 162, ¶ 2, for $100.00, and § 163, ¶ 2, for $10.00; also make a journal entry showing the debits and credits in this transaction).

November 21st, bought a show case for $35.00; 25th, gave the horse named George for a horse named Bill, valued at $150.00, and gave our check for $50.00 difference (credit, § 166, ¶ 3, for $125.00; debit, § 166, ¶ 2, for $150.00, and § 167, ¶ 2, for $25.00); also make the required journal entry.

December 9th, bought a new safe for $200.00, and was allowed $100.00 for the old one. Gave check for $100.00, the difference (see reference given under October 20th, and make the journal entry); 16th, the horse Darby was killed in a runaway (see note at bottom of page 143, and make journal entry); paid $100.00 for Dolly, to take his place (debit, §166, ¶ 2); 27th, bought a typewriter desk for $15.00; 30th, at the end of the fiscal period the Reserve for Depreciation of each account is credited with 5% of the cost price.

QUESTIONS.

1. What are fixed investments? (§§ 21, 161.)
2. Is it necessary to keep special accounts with each kind of property? (§ 161.)
3. Define office equipment and name some of the property included in this. (§ 162.)
4. Name the two special debits for the Office Equipment account. (§ 162, ¶¶ 1,2.)
5. Name the two special credits. (§ 162, ¶¶ 3 and 4.)
6. What does the balance of the Office Equipment account show? (§ 162.)
7. When and how is the Office Equipment account closed? (§ 162.)
8. Define the Reserve for Depreciation of Office Equipment account. (§ 163.)
9. Why is it necessary to keep this account? (§ 163.)
10. For what is this account debited? (§ 163, ¶¶ 1—3.)
11. For what is it credited? (§ 163, ¶ 4.)
12. What does the balance of this account show? (§ 163.)
13. When and how is it closed? (§ 163.)
14. Define the Store Fixtures account and name some of the property that is represented by it. (§ 164.)
15. For what is it debited? (§ 164, ¶¶ 1, 2.)
16. For what is it credited? (§ 164, ¶¶ 3, 4.)
17. What does the balance show? (§ 164.)
18. When and how is it closed? (§ 164.)
19. Why is it necessary to keep a Reserve for Depreciation of Store Fixtures account? (§ 165.)
20. For what is it debited? (§ 165, ¶¶ 1—3.)
21. For what is it credited? (§ 165, ¶ 4.)
22. What does the balance show? (§ 165.)
23. When and how is it closed? (§ 165.)
24. Define Delivery Equipment account, and name some of the property represented by it. (§ 166.)
25. For what is it debited? (§ 166, ¶¶ 1, 2.)
26. For what is it credited? (§ 166, ¶¶ 3, 4.)
27. What does the balance show? (§ 166.)
28. When and how is it closed? (§ 166.)
29. Why is it necessary to keep a Reserve for Depreciation of Delivery Equipment account? (§ 167.)
30. For what is it debited? (§ 167, ¶ 1—3.)
31. For what is it credited? (§ 167, ¶ 4.)

SPECIAL ACCOUNTS WITH EXPENSE.

§ 168. **As Explained** in § 32, one account may be kept with Expense, but the best practice is to keep separate accounts with each particular class of expense. In this set, the student will keep two accounts with expense; one with General Administrative Expense, and the other with Selling Expense.

GENERAL ADMINISTRATIVE EXPENSE ACCOUNT.

§ 169. **The Object of this Account** is to keep a record of all amounts paid for services or property that will be consumed by its use, other than for selling expenses. Amounts charged to this account include rent, salaries of partners, bookkeepers and other office employees, depreciation of office equipment and store fixtures, stationery, books, etc.

Debit General Administrative Expense Account:

¶ 1. For partners' salaries.
¶ 2. For rent.
¶ 3. For telephone, telegrams and miscellaneous services.
¶ 4. For repairs on office equipment or store fixtures.
¶ 5. For depreciation on office equipment or store fixtures.
¶ 6. For salaries of all employees except those engaged in the selling department.
¶ 7. For license or other taxes levied for the privilege of doing business.
¶ 8. For insurance on property purchased for sale and on fixed investments.
¶ 9. For cost of property that will be consumed by its use, such as stamps, stationery, etc.
¶ 10. For amounts paid for collecting notes and drafts, and paid to the bank for issuing exchange, collecting out-of-town checks, etc.

Credit General Administrative Expense Account:

¶ 11. For any amounts received which reduce the charges to this account.
¶ 12. For amounts received for the sale of property, the cost of which was charged to this account.

¶ 13. *The Difference between the two sides of this Account* shows the net cost of conducting the business, except amounts paid for selling expense. The debit side is always the larger. It is one of the operating expenses, and listed among the losses on the Profit and Loss statement.

¶ 14. *To Close the General Administrative Expense Account.* After the Profit and Loss statement has been made and proved to be correct by the Financial statement, this account is closed into the Profit and Loss account by a journal entry (§ 200, ¶ 2). When this entry is posted, the account will balance, and is then ruled with single and double red lines, and footed with black ink.

General Administrative Expense

191 Apr	30		J.6	200		191 Apr	30	Stationery on hand	J.5	20	
			J.6	4	13			Profit and Loss	J.6	474	51
			C.3	206	85						
		Office Equipment	J.6	23	33						
		Store Fixtures	J.6	10	20						
		Rent	J.5	50							
				494	51					494	51
Apr.	30	Stationery on hand	J.6	20		Apr.	30	Rent of warehouse	J.6	50	

Illustration No. 57. General Administrative Expense Account.

SELLING EXPENSE ACCOUNT.

§ 170. The Object of this Account is to show the cost of selling goods. This includes all amounts paid to clerks whose services are necessary in the selling department, and other selling expenses.

Debit the Selling Expense Account:

¶ 1. For amounts paid employees for services rendered in selling merchandise.

¶ 2. For amounts paid for delivering merchandise, unless a special account is kept with Delivery Expense.

¶ 3. For all amounts paid for advertising and traveling expense, unless special accounts are kept with these.

¶ 4. For all freight paid on goods which are to be delivered at the customer's freight station, unless a special account is kept.

¶ 5. For the depreciation on delivery equipment, unless a special account is kept with Delivery Expense.

Credit the Selling Expense Account:

¶ 6. For any amounts received that reduce the cost of selling expense.

¶ 7. For all amounts received for services rendered to others by our delivery equipment, unless a special account is kept with Delivery Expense.

¶ 8. *The Difference between the two sides of this Account* shows the net cost of selling goods. The debit side is always the larger. It is one of the operating expenses, and appears on the Profit and Loss statement, being listed with the losses.

¶ 9. *To Close the Selling Expense Account.* After the Profit and Loss statement has been made and proved to be correct by the Financial statement, this account is closed into the Profit and Loss account by a journal entry. When this entry is posted, the account will balance and is ruled with single and double red lines and the footings entered in black ink.

Selling Expense

191						191					
Apr.	30		C2	152		Apr.	30	Sund. Res. Inv.	J5	8	0
		Res. Dep. Del. Equip.	J5	22	50			Profit & Loss	J6	164	50
		Sund. Lia. Inv.	J5	7	0					244	50
				244	50						
				244	50					244	50
Apr.	30	Delivery services	J6	8	0	Apr.	30	Board for horses	J6	7	0

Illustration No. 58. Selling Expense Account.

EXERCISES IN EXPENSE ACCOUNTS.

The following exercises are given to illustrate the various debits and credits of the General Administrative Expense and Selling Expense accounts, as outlined in §§ 169, and 170, and the various paragraphs under each. The student will work these exercises out on ledger paper, close the accounts, and hand to the teacher for approval. References are given where the student may be in doubt as to the proper account to debit or credit.

EXERCISE No. 52. April 30th, total amount paid for General Administrative Expense, per the General Administrative Expense column in the cash book, $206.85 (§ 169, ¶¶ 2, 3, 4, 6, 7); 30th, total amount paid for Selling Expense, per the Selling Expense column in the cash book, $152.00 (§ 170); 30th, partners' salaries, $200.00 (§ 169, ¶ 1); 30th, the Insurance account is credited with $\frac{1}{12}$ (one month) of $49.50, the amount paid for insurance (§ 169, ¶ 8); 30th, this is the close of the fiscal period and the proper accounts are charged with the depreciation on Office Equipment, $23.33; Store Fixtures, $10.20 (§ 169, ¶ 5), and Delivery Equipment, $22.50 (§ 170, ¶ 5).

EXERCISE No. 53. January 1st, paid telephone bill, $20.00 (§ 169, ¶ 3); 5th, paid for stamps, $10.00 (§ 169, ¶ 9); 6th, pay roll for the week, $40.00 (§ 170, ¶ 1); 8th, paid for varnishing office furniture, $5.75 (§ 169, ¶ 4); 10th, paid for stationery and blank books, $35.60 (§ 169, ¶ 9); 12th, paid for shoeing horses, $2.50 (§ 170, ¶ 2); 13th, pay roll for the week, $40.00; 15th, paid $18.00 for license (§ 169, ¶ 7); 20th, paid $10.00 for stamps; 20th, pay roll for the week, $40.00; 25th, paid for repainting floor in office, $12.00 (§ 169, ¶ 4); 27th, pay roll for the week, $40.00; 31st, partners' salaries, $200.00 (§ 169, ¶ 1); salaries for office help, $100.00 (§ 169, ¶ 6).

February 3d, pay roll for the week, $40.00; 4th, sold a customer stamps for $3.50 (§ 169, ¶ 12); 6th, paid collection charges on a note, $2.00 (§ 169, ¶ 10); 9th, paid $16.50 freight on goods sold to a customer which we had agreed to deliver (§ 170, ¶ 4); 10th, pay roll for the week, $40.00; 11th, paid for board of horses, $35.00 (§ 170, ¶ 2); 12th, charges on a telegram, $1.00 (§ 169, ¶ 3); 15th, received $26.80 for delivery service (§ 170, ¶ 7); 17th, pay roll for the week, $40.00; 22d, paid for repairs on scales, $2.50 (§ 169, ¶ 4); 24th, pay roll, $40.00; 28th, partners' salaries $200.00; pay roll for office help, $100.00; 28th, this being the close of the fiscal period, the proper accounts are charged with the depreciation on Office Equipment, $16.85 (§ 169, ¶ 5); Store Fixtures, $13.50 (§ 169, ¶ 5); Delivery Equipment, $18.00(§ 170, ¶ 5); the Insurance account is credited with $\frac{1}{6}$ (two months) of the amount ($1,211.50); paid for insurance (§ 169, ¶ 8).

EXERCISE No. 54. July 1st, paid rent in advance, $50.00; 2d, paid for telephone, $4.00; 3d, paid license, $20.00; 15th, pay roll for office help, $36.50; clerks' and drivers' salaries, $80.00 (§ 170, ¶¶ 1 and 2); 22d, paid for papering office, $16.50; 31st, partners' salaries, $150.00; 31st, pay roll for office help, $36.50; clerks' and drivers' salaries, $80.00.

August 1st, paid rent in advance, $50.00; 1st, paid for board of horses, $60.00 (§ 170, ¶ 2); 2d, paid advertising bill, $18.00 (§ 170, ¶ 3); 3d, paid phone rent, $4.00; 10th, paid blacksmith's bill, $10.50 (§ 170, ¶ 2); 14th, paid for repairs on store fixtures, $12.65; 15th, pay roll, office help, $36.50; clerks' and drivers' salaries, $80.00; 23d, paid for stamps, $20.00; 24th, bought stationery, $11.60 (§ 169, ¶ 9); 27th, sold stamps for $4.50 (§ 169, ¶ 12); 31st, partners' salaries, $150.00; 31st, pay roll, office help, $36.50; clerks' and drivers' salaries, $80.00.

September 1st, paid rent in advance, $50.00; 2d, paid phone rent, $4.00; 2d, paid for board of horses, $60.00; 10th, paid for repairs on office furniture, $9.60; 14th, collected for delivery service, $36.50 (§ 170, ¶ 7); 15th, paid for stamps, $10.00; 15th, paid advertising bill, $6.50; 15th, pay rolls office help, $36.50; clerks' and drivers' salaries, $80.00; 25th, paid $16.85 for freight on goods delivered to a customer (§ 170, ¶ 4); 30th, pay roll, office help, $36.50; clerks' and drivers' salaries, $80.00, 30th, partners' salaries, $150.00; 30th, this being the close of the fiscal period, the Insurance account is credited with $\frac{1}{4}$ (three months) of the amount, ($90.00) paid for insurance. The proper account; are charged with the depreciation on Office Equipment, $19.65; Store Fixtures, $12.50, and Delivery Equipment, $16.95.

INSURANCE ACCOUNT.

§ 171. **As Stated in the Introduction** where there is a risk of property being destroyed there will be a company organized to issue insurance to protect the owner against loss. Every practical business man will have his property insured against loss by fire or other natural causes. The insurance company charges only a small amount for the protection it affords. The policy is the contract, or agreement, of the insurance company. The premium is the amount paid for the protection. The cost of insurance will depend upon the location of the property and the risk which the insurance company assumes. Insurance policies are usually issued for a period of one year, and the premium is based on this time. If the policy is issued for a less time, the premium will be the proportionate part of a year with a small additional charge. This is termed "Short Rate."

The object of the Insurance account is to keep a record of all amounts paid for insurance. As the property insured may be of a different nature and represented by different accounts on the books, it is best to charge all amounts paid for insurance to the Insurance account, and at the close of each fiscal period, credit this account with the insurance that has expired, and debit the proper service account.

Debit the Insurance Account:

¶ 1. With all amounts paid for insurance premiums.

Credit the Insurance Account:

¶ 2. With insurance premiums refunded on canceled policies.

¶ 3. At the close of each fiscal period for the proportion of insurance expired.

¶ 4. *The Balance of this Account,* after the credits have been entered, will show the amount of unexpired insurance. It is a resource and appears on the Financial statement after the active assets and fixed investments have been listed.

¶ 5. *To Close the Insurance Account.* This account is not closed because it will eventually balance itself. If it is desired to close the account and bring the balance down on the same page or transfer it to a new page, the difference is entered on the credit side in red ink, as follows: The date, the word "Balance" in the explanation column; and the amount of the difference. The account is ruled with single and double red lines, footed with black ink and the balance brought down or transferred to a new page, on the debit side, in black ink.

Insurance

191						191					
Apr.	11		C.3	49	50	Apr.	30		J.6	4	13
May	29		C.7	24	75	May	31		J.12	6	19
				74	25					10	32

Illustration No. 59. Insurance Account.

NOTE.—A record of each policy should be kept in a specially prepared book, which is known as "Insurance Policy Record." The record in this book must show the policy number, the name of the company, date of the policy, date of expiration, amount of insurance, the total premium, the property covered (merchandise, fixed investments, buildings, etc.), and, if desired, the monthly premium. Unless the statements of the business are made at the end of each month, this column is not necessary.

The object of this record is to provide an index of all insurance policies, that the proportionate part of insurance for the fiscal period may be readily ascertained. This record is also important in case of a fire or the loss of an insurance policy. As a general rule, the agent of the insurance company will see that no policies are allowed to expire without being renewed, but it is well for the bookkeeper to also keep a record so that the property of the business will always be protected by the proper amount of insurance.

QUESTIONS.

1. Why is it best to keep special accounts with expense? (§ 168.)
2. Name the two special accounts used in this set. (§§ 169 and 170.)
3. Define General Administrative Expense account. (§ 169.)
4. Name five of the debits. (§ 169, ¶¶ 1—10.)
5. Name the two credits. (§ 169, ¶¶ 11—12.)
6. What does the difference of the General Administrative Expense account show? (§ 169.)
7. On which statement does it appear?
8. When and how is it closed? (§ 169.)
9. Define Selling Expense account. (§ 170.)
10. Name the five debits. (§ 170, ¶¶ 1—5.)
11. Name the two credits. (§ 170, ¶¶ 6—7.)
12. What does the difference of the Selling Expense account show? (§ 170.)
13. On what statement does it appear?
14. How and when is it closed? (§ 170.)
15. Define Insurance account. (§ 171.)
16. What is the contract called? (§ 171.)
17. What is the amount paid for insurance called? (§ 171.)
18. For how long a time are insurance policies usually issued? (§ 171.)
19. On what time is the rate based? (§ 171.)
20. Why is an account kept with insurance? (§ 171.)
21. For what is it debited? (§ 171, ¶ 1.)
22. For what is it credited? (§ 171, ¶¶ 2, 3.)
23. What does the balance show? (§ 171.)
24. On which statement does it appear? (§ 171.)
25. When and how is the Insurance account closed? (§ 171.)
26. Rule the required form to be used as an insurance policy record. (§ 171, Note.)

BLANK BOOKS.

§ **172. In this Set,** the student will use the sales book, purchases book, journal, and cash book as books of original entry, and notes receivable and notes payable books as auxiliary books. The ledger will be the only book of complete entry used. Since these books differ in many respects from those explained in Part 1, a brief description of each is given, together with an illustration, showing the form and use of each.

§ **173. Sales Book.** As explained in § 113, the object of the sales book is to keep a record of all credit sales. This record must show the name of the person to whom the sale was made, his address, the terms (if special), the items sold, price and value of each, and the total amount of the sale. The credit sales in the average mercantile business are usually very numerous, hence it is necessary to provide some means of recording these that will involve the least possible amount of work. The nature of the business usually determines the method to be used. One of the most popular methods is to make a carbon copy of each bill, retaining this carbon copy as the sales book record. This method saves the time required in copying the items and avoids the mistakes that are made in doing this.

¶ 1. *The Sales Book used in this Set* is made up of white and yellow sheets, arranged alternately, and with three billheads to the page. The white sheet is the billhead, and the copy made on this is sent to the customer. The yellow sheet is for the carbon copy, which is the sales book record. The carbon sheet is inserted between the two; writing the bill on the white sheet makes an exact copy on the yellow sheet. The bill is torn out along the perforated lines and sent to the customer. The carbon copy remains as the sales book record. Highly sensitive carbon is provided so that the bill can be written with a pen and a good copy obtained. The teacher may permit the use of a pencil, but it is not advised, as the student should have practice in making carbon copies with a pen. If a pencil is used, it must have very hard lead and be kept sharp, since good carbon copies can not be obtained from the use of a soft pencil, or one with a dull point.

¶ 2. *On the Inside of the Front Cover* of the sales book, special instructions are given relative to the use of the carbon and method of making calculations.

¶ 3. *Posting from the Sales Book.* Each customer is charged with the amount of his purchase. The page of his account in the ledger is written at the left of his name in the sales book, and the page in the sales book is written in the folio column in the ledger. The street address of each customer must appear in the ledger. It is not necessary to write the items in the ledger, as these can be obtained by referring to the sales book. The Sales account is not credited with the amount of each sale, but with the total at the end of the month, or when a trial balance is to be taken. Each page of the sales book is footed and the total forwarded to the next page. The total sales for the month is represented by the total shown on the last page. If desired, each sale may be listed on a separate slip of paper, and this pasted in front of the last yellow sheet used. If this method is used, it is not necessary to foot and forward the various pages of the sales book. The total of this slip is the total sales for the month. If an adding machine is used, the latter method is more satisfactory, as the slip containing the amounts printed by the adding machine may be used. Unless the items are added on the adding machine, the student will have to be very careful, as an error in listing and adding the sales will mean a corresponding error in the trial balance.

§ **174. Purchases Book.** As explained in § 130, the object of this book is to keep a record of merchandise purchased "on time." This record must show the name of the person or firm from whom the purchase was made and his address, the date of purchase, the terms, and a description of the items purchased or reference to the invoice that these items may be obtained. Since the invoice contains all of the information, it is best to use this as a record in the purchases book. Where the business is very extensive and a number of invoices are received, this method may not be practical; but unless this is the case, or a vertical filing system is used for filing invoices, it is best practice to use the invoices as the record in the purchases book. To do this the invoice is pasted in a specially prepared book, which is known as the "Purchases Book." The best method of doing this is as follows:

Put a small amount of mucilage or paste on each of the four corners of the first invoice, and place it at the top of the page with the right-hand edge on the double line ruled at the right. The amount of the invoice is entered in the money column at the right, on a line with the name of the person or firm from whom the merchandise was purchased. To enter the next invoice, put the mucilage or paste on the two lower corners only, allowing the top to come just below the terms on the first invoice. This allows the important facts—firm name, date, terms, etc., to be shown. To refer to the items on any invoice, turn back the top of the invoice that covers them. All succeeding invoices on a page are entered in the same manner.

When a page is full it is footed, the amount is entered in the money column and the total carried forward to the top of the next page. At the bottom of the page, rule a single line and place the total below it. At the left on the line with that amount, write "Carried Forward." At the top of the next page, write "Brought Forward" and enter the total of the preceding page in the money column. When the first invoice is entered, the top should come just beneath the words "Brought Forward." Unless each page is footed and carried forward as instructed, the student is apt to forget to leave the space at the top of the page, hence have no room to write the words "Brought Forward."

¶ 1. *Posting from the Purchases Book.* Each person or firm from whom merchandise was purchased on time, is credited in the ledger for the amount of the purchase. This amount is written in the money column in the purchases book, opposite the name of the person or firm from whom the merchandise was purchased. The entry in the ledger must show the amount, page of the purchases book, terms as indicated on the invoice, and date, which is the date the invoice is entered. The date of the invoice and terms should be entered in the explanation column, to ascertain the due date of the invoice. The ledger page is written just to the left of the name printed on the invoice.

The Purchases account is not charged with the amount of each purchase, but with the total at the end of the month. Each page of the purchases book is added and the total forwarded to the next. The total purchases for the month is the total of the last page of the purchases book. The last page should be ruled with single and double red lines and the total entered between these, this ruling being below the bottom of the last invoice. At the left and on the line with the total amount,

Cash

April Receipts

Date	L.F.	Name of Account	Explanation	General	Sales	Purchases Discount
2		C. W. Keeland, Capital	Investment	1500		
		A. D. Munson "	"	1500		
5	✓	Sales	Cash sales		223 65	
6		J. M. Farris	On account	20		
		Jones Brick Co	" "	25 30 45	223 65	
9		Stewart & McCampbell	In full of a/c	53 41		
		A. Scarborough	On account	30		
10	✓	Purchases Discount	J. H. McL. Co			11 16
12	✓	Sales	Cash sales		190 47	
13		J. L. Luttrell	On account	27 50		
14	✓	Purchases Discount	Jellico C. M. Co	3155 91	414 12	5 58 16 74
29	✓	Sales	Cash sales		120 69	
		A. K. Harper & Co.	In full of a/c	286 38		
		Day Foundry & Machine Co	On account	18 45 4038 76	1287 50	27 45
30		Purchases Discount	Total for month	27 45		27 45
		Sales	" "	1287 50	1287 50	
				5353 71		

Illustration No. 60. Debit Side of Cash Book.

Cash

April — Payments.

Date	L.F.	Name of Account	Check No.	General	General Admr Exp.	Selling Expense.
2		Freight In	Check #1	208 80		
	✓	Gen'l Admr. Expense	" #2		20	
4		Delivery Equipment	" #3	450		
		Office Equipment	" #4	101		
5		Store Fixtures	" #5	150		
6	✓	Office Equipment	" #6	75		
7		Office Equipment	#7	165 50		
	✓	Gen'l Admr. Expense	" #8		40	
	✓	Selling Expense	" #9	1150 30	60	38 38
10	✓	Gen'l Admr. Expense	License		30	
		J H McLaurin Co	Check #10	456 39		
11		C W Keeland Personal	" #11	35		
		A D Munson "	" #11	25		
		Insurance	" #12	49 50		
13		Freight In	" #13	457 74		
14	✓	Gen'l Admr Expense	" #14		48 10	
	✓	Gen'l Admr Expense	Stamps &c extra help &c		12	
		Jellico Coal Mining Co	Check #15	279		
	✓	Selling Expense	Pay Roll	2452 93	150 10	38 76
30		Freight In	Check #23	567 43		
	✓	Gen'l Admr. Expense	Book Keep salary	4112 05	50 206 85	152
		Selling Expense	Total for month	152		152
		Gen'l Admr. Expense	" " "	206 85	206 85	
		Balance		582 57		
				5353 71		

Illustration No. 61. Credit Side of Cash Book.

write "Purchases, Dr., total purchases for the month." The page of the Purchases account in the ledger is entered at the left of the account just written.

§ **175. Journal.** As explained in § 38, the object of the journal is to keep a record of all business transactions. When credit sales are entered in the sales book, credit purchases in the purchases book, and cash received and paid in the cash book, only those transactions that are not entered in these books are entered in the journal. The same form is used as in the preceding set. There are four steps necessary to record a transaction in the journal: *First*, the date; *second*, the name of the account or accounts debited and the amount or amounts; *third*, the name of the account or accounts credited and the amount or amounts; *fourth*, the explanation or information for the auditor. When an entry requires more than one debit or credit the amounts are added to prove that the debits and credits are equal. Some bookkeepers foot each page of the journal to prove that the total debits equal the total credits. If this is done, it is not necessary to forward these totals.

§ **176. Special Columns in Books of Original Entry.** The object of special columns in any book of original entry is to save time in posting. If a number of transactions affect the same account, the various amounts may be entered in a special column. By doing this, it is not necessary to post the various amounts until the end of the month, thus saving time in posting and space in the ledger account. Usually there are more transactions affecting cash than all others, and many of these affect the same account, for which reason special columns are more often used in the cash book than any other book. However, they can be used in any book of original entry.

¶ 1. *When Posting from a Book of Original Entry* in which special columns are used, amounts entered in the special columns are not posted until the end of the month. To avoid this, it is best to place a check mark (√) in the folio column at the left of the name of the account. The name of the account affected is written at the top of each special column and, at the end of the month, that account is debited or credited with the total of the column.

§ **177. Cash Book.** As explained in § 114, the object of the cash book is to contain a record of all transactions in which cash is received or paid. Since the Cash account is debited when cash is received and credited when it is paid, the receipts and payments are entered on separate pages, the former being on the left or debit side, and the latter on the right or credit side. The form of the cash book used in this set is the same as that in the preceding set, except there are two special columns on each side. This means that there are three columns on each side, one being the general column and the other two the special columns.

§ **178. Debit Side.** On this side of the cash book are recorded all transactions involving receipts of cash. To record a transaction on this side, it is necessary to write the date, the name of the person from whom the money was received, or the account that produces the money, the explanation and amount. All amounts are entered in the first money column, except those that are entered in the two columns to the right of this. All amounts received for cash sales of merchandise are entered in the second column. The name of the account (Sales) is written at the left and a check mark (√) placed in the folio column to indicate that the amount is not to be posted until the end of the month. When an invoice is paid, less discount, the deduction being made according to the terms, the creditor is charged with the full amount of the invoice on the credit side of the cash book, so that his account will balance, and the difference between the amount of the check and invoice is entered in the third column on the debit side of the cash book. The name of the account (Purchases Discount) is written at the left, and a check mark (√) placed in the folio column to indicate that the amount is not to be posted until the end of the month. This method of making the entry is the same as giving the firm we owe a check in full for the invoice, and their giving us a check for the amount of the discount. The total receipts of cash are represented by the total of the first two columns; but in proving cash, it is necessary to use the three columns because the amount entered on the credit side exceeds the check written by the amount of the discount on the debit side.

¶ 1. *To Post from the Debit Side of the Cash Book.* Each amount in the first or "General" column on the debit side, is posted to the credit of the account, written on the same line with it. Amounts

entered in the second and third columns are not posted until the end of the month; the totals of these columns are posted to the credit side of the account named at the top of the column.

§ **179. Credit Side.** All transactions in which cash is paid, either by check or currency, are entered on the credit side of the cash book. To record a transaction on the credit side of the cash book, it is necessary to write the date, the name of the person to whom the money is paid, or the account affected, the explanation and amount. All amounts are entered in the first column, except those that are entered in the two columns to the right. All amounts paid for General Administrative Expense are entered in the second column. The name of the account (General Administrative Expense) is written at the left, and a check mark (✓) placed in the folio column to indicate that the amount is not to be posted until the end of the month. All amounts paid for Selling Expense are entered in the third column. The name of the account (Selling Expense) is written at the left, and a check mark (✓) placed in the folio column to indicate that the amount is not to be posted until the end of the month. The total payments of cash are represented by the three columns, less the amount deducted for discount, as shown by the total of the Purchases Discount column, on the debit side.

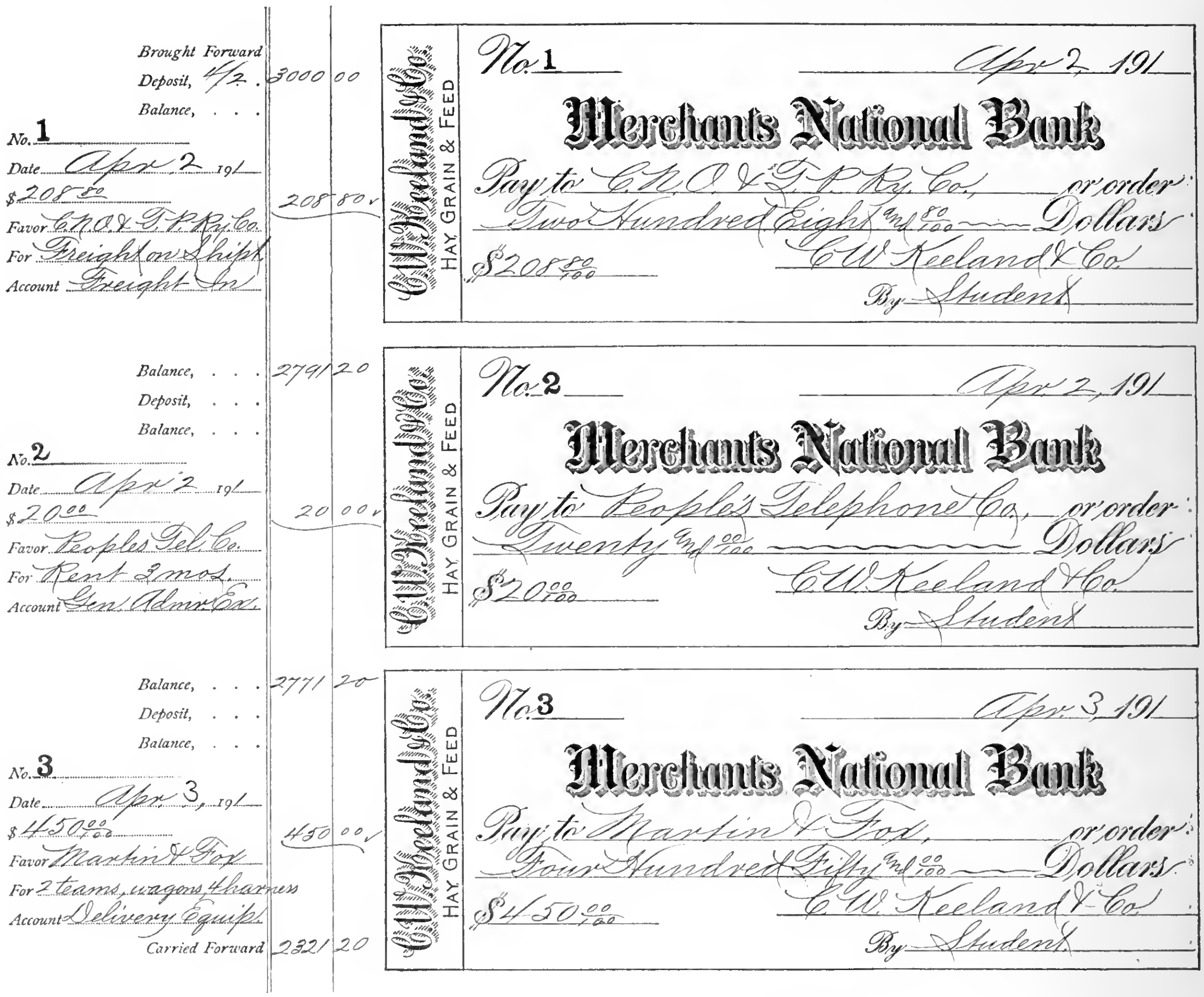
¶ 1. *To Post from the Credit Side of the Cash Book.* Each amount in the first or "General" column is posted to the debit side of the account written on the same line with it. The amounts in the second and third columns are not posted until the end of the month; the totals of these columns are posted to the debit side of the account named at the top of the column.

§ **180. To Prove Cash.** Foot the three columns on the debit side and place the totals in small pencil figures just beneath the blue line on which the last entry is made. The total of each of the three columns is written beneath the same blue line. Foot the three columns on the credit side and place the total of each column just beneath the blue line on which the last entry is made. The total of each column is placed beneath the same blue line. On a piece of scratch paper add the totals of the three columns on the debit side and the totals of the three columns on the credit side. The difference between these two amounts is the amount of cash on hand. This should equal the amount in the bank and in the cash drawer.

NOTE.—The form of cash book described above is not considered the best by some accountants, but is quite popular with many bookkeepers. It affords an accurate check on those transactions in which discount is deducted. By placing the discount deducted on the opposite side, errors made in deducting the discount from the amount of the bill or writing the check will be discovered, because the cash will not prove unless the deductions are correct. An error in adding the discount column will be discovered, because the cash will not prove unless this column is added correctly. One objection offered by accountants is that the net amount of cash received and paid is not shown. To ascertain the amount of cash received, add the totals of the first two columns on the debit side and deduct from this any discount entered on the credit side. To ascertain the amount of cash paid, add the totals of the three columns on the credit side and deduct from this the total of the third column on the debit side. Another form of the cash book in which this objection is overcome will be explained later in this set.

§ **181. Check Book.** As explained in § 104, banks provide blank checks to be used by depositors for withdrawing money on deposit. These are usually arranged with two or more checks to a page, each check provided with a stub and a ruled column in which to keep the bank account; those bound in a book are known as the "Check Book." In this set the check book contains three checks to the page. Illustration No. 62 shows the first three checks, the stubs properly made out and the method of keeping the account with the bank. This is kept in the column ruled at the right of the stub. The amount of each deposit, check, and balance in the bank, is placed in this column to the right of the printed instructions on the stub.

The bookkeeper should keep a copy of each deposit. The auditor will check the cash receipts and payments with the deposits and checks written. If the bookkeeper has a record of the checks and money deposited, the auditor can verify the cash book entries with the bank account. Some banks provide blank deposit tickets bound in book form and arranged for an original and duplicate of each deposit. The duplicate is made by the use of carbon paper. When this form is not provided and the loose deposit tickets used, the bookkeeper can make his copy of the deposit on the back of one of the stubs from which the checks have been removed. It is best to use the last one, which would be the one opposite the stub on which the amount of the deposit is entered. This copy of the deposit should show the currency deposited, the amount of each check and name of the city in which



Brought Forward
Deposit, 4/2. 3000 00
Balance, . . .
No. 1
Date Apr 2 191
$208.80
Favor C.N.O.&T.P.Ry.Co.
For Freight on Ship.
Account Freight In
208 80

C.W. Keeland & Co. HAY GRAIN & FEED
No. 1 Apr 2 191
Merchants National Bank
Pay to C.N.O.&T.P.Ry.Co. or order
Two Hundred Eight 80/100 Dollars
$208 80/100 C.W. Keeland & Co.
By Student

Balance, . . . 2791 20
Deposit, . . .
Balance, . . .
No. 2
Date Apr 2 191
$20.00
Favor Peoples Tel. Co.
For Rent 2 mos.
Account Gen. Admr. Ex.
20 00

C.W. Keeland & Co. HAY GRAIN & FEED
No. 2 Apr 2 191
Merchants National Bank
Pay to People's Telephone Co. or order
Twenty 00/100 Dollars
$20 00/100 C.W. Keeland & Co.
By Student

Balance, . . . 2771 20
Deposit, . . .
Balance, . . .
No. 3
Date Apr 3 191
$450.00
Favor Martin & Fox
For 2 teams, wagons & harness
Account Delivery Equip.
450 00
Carried Forward 2321 20

C.W. Keeland & Co. HAY GRAIN & FEED
No. 3 Apr 3 191
Merchants National Bank
Pay to Martin & Fox, or order
Four Hundred Fifty 00/100 Dollars
$450 00/100 C.W. Keeland & Co.
By Student

Illustration No. 62. First Page of Check Book.

it is payable. The checks should be listed on the deposit ticket and copy in the same order as they are entered in the cash book.

§ 182. **Auxiliary Books.** A book that gives information in addition to that given in the book of original entry is an auxiliary book. Auxiliary books are kept for information only, and no amounts are posted from them. The transaction is recorded in some book of original entry, and in place of the usual explanation or information for the auditor, reference is given to the page of the auxiliary book in which the special information is recorded. The principal object of auxiliary books is to give more detailed information than would be practical to include in the explanation of the transaction in the book of original entry.

When a note is received from a customer, the transaction is entered in the book of original entry and a brief explanation given, so that the auditor may know the transaction has been recorded correctly. It is not practical to make this explanation show all the desired information, for which reason a special book is kept which gives detailed information concerning the note. This book is known as the "Notes Receivable Book." The notes receivable book is an auxiliary book, because it is kept for information only.

The above facts are true in regard to notes signed by the business, for which reason the special information is given in an auxiliary book, known as the "Notes Payable Book." When an auxiliary

book is kept, the only explanation necessary in the book of original entry is a reference to the page of the auxiliary book which contains the special information.

An auxiliary book may be kept to show any special information desired, either regarding the entries in books of original entry or ledger accounts. The record in the auxiliary book must be kept so that it can be proved with the entry in the book of original entry or some account in the ledger. No facts shown by the record in this book should be accepted as correct unless the results have been proved.

§ 183. Notes Receivable Book. This is an auxiliary book, and is kept to show more detailed information relative to notes received, than is usually given in the explanation or information for the auditor in the book of original entry. When a note is received from a customer, the transaction is entered in the book of original entry (usually the journal), and, instead of the usual explanation, reference is given to the page of the notes receivable book, which shows detailed information relative to the note. The note is then recorded on this page in the notes receivable book. This book is ruled so that all the desired information may be written on one line. It contains columns for the date the note was received, the endorser, the name of the person or firm who is to pay it, the name of the person or firm in whose favor it is made payable, the name of the bank or office where it is payable, the date of the note, time, amount, rate of interest, each of the twelve months in the year, and any other special information. Illustration No. 63 shows the notes receivable book with sufficient entries to illustrate its use.

¶ 1. *To Prove the Notes Receivable Book.* As explained in § 182, the record given in the auxiliary book must be kept so that it can be proved with the facts shown on the entry in some book of original entry or the account in the ledger. The debit side of the Notes Receivable account in the ledger shows the face of each note received, and the credit side, the face of each note when paid, hence the difference is the value of notes due the business. If each note is recorded in the notes receivable book, the total of the notes unpaid should be the same as the difference of the Notes Receivable account. The proof of this book is not complete unless the total amount of notes on hand is the same as the facts shown by this book and the Notes Receivable account in the ledger. When a note is payable in some other city and it is sent to a bank for collection this fact should be stated in the remarks column, that the record in this book may be complete. Unless he does this, the bookkeeper is sure to have trouble in proving his work. The correctness of the record in the notes receivable book should be proved at least once each month.

Since a draft drawn by us and accepted by the person on whom it is drawn, is considered the same as a note, it is entered in the notes receivable book. The draft should be entered when drawn. If it is payable a certain number of days after sight, it is necessary to wait until the draft is accepted before completing the record. A sight draft should be entered in the notes receivable book, so that some permanent record may be kept of it.

NOTE.—The bookkeeper must keep a record of all sight and time drafts drawn, and this book provides the best means if no stub is retained. If the drafts are bound in book form and provided with a stub, it is not necessary to enter the drafts drawn in the notes receivable book until after they are accepted. In this case, sight drafts are not entered in the notes receivable book.

§ 184. Notes Payable Book. This is an auxiliary book, which gives detailed information relative to notes signed or drafts accepted by the business. The required information is practically the same as that in the notes receivable book and the ruling is usually the same. The record in this book is proved by comparing the total of the unpaid notes with the difference of the notes payable account in the ledger. Illustration No. 64 shows the notes payable book with sufficient entries to illustrate its use.

NOTE.—Both the notes receivable and notes payable books may be used as books of original entry. If so used, transactions relative to notes and accepted drafts are not entered in the journal and the posting is done from these books In this set they are used only as auxiliary books. The other method will be illustrated later in the work.

NOTES RECEIVABLE

Date Received	Our No.	(Draft) (Note) DRAWER OR ENDORSER	(Note) (Draft) MAKER OR DRAWEE (Payer)	IN WHOSE FAVOR (Payee)	WHERE PAYABLE
April 16	1	Young & Doyle	James B. Ford	Young & Doyle	Merchants Natl Bank
24	2	Lee & Roberts	Moses A Palmer	Lee & Roberts	Cleveland Natl Bank
30	3		A.K. Harper & Co.	C. W. Keeland & Co	Bank of Maryville
May 11	4		Young & Doyle	C. W. Keeland & Co	Merchants Natl Bank
11	5	C. W. Keeland & Co	W. H. Ingram	First Natl Bank, Pittsburgh	First Natl Bank

Illustration No. 63. Left Page of Notes Receivable Book.

NOTES PAYABLE

Date Received	Our No.	(Draft) (Note) DRAWER OR ENDORSER	(Note) (Draft) MAKER OR DRAWEE (Payer)	IN WHOSE FAVOR (Payee)	WHERE PAYABLE
April 6	1		C. W. Keeland & Co	Hall Safe & Lock Co.	Merchants Natl Bank
6	2		" " "	" " "	" " "
10	3	Capital Grain Co.	" " "	Third Natl Bank Denver	" " "
19	4	L. Fowler	" " "	Merchants Natl Bank	" " "
21	5	J. Allen Smith & Co.	" " "	" " "	" " "
21	6	Western Hay & Grain Co.	" " "	" " "	" " "

Illustration No. 64. Left Page of Notes Payable Book.

QUESTIONS.

1. What blank books are used in this set? (§ 172.)
2. Describe the sales book. (§ 173, ¶ 1.)
3. Mention some of the advantages in this form. (§ 173.)
4. Describe the method of posting. (§ 173, ¶ 3.)
5. Why is the Sales account not credited with each sale?
6. Describe the purchases book to be used in this set. (§ 174.)
7. Name some of the advantages.
8. Describe the method of pasting the invoices in the purchases book. (§ 174.)
9. Describe the method of posting from this book. (§ 174, ¶ 1.)
10. Why is the Purchases account not debited with each purchase?
11. Define the journal. (§ 175.)
12. If a transaction affects more than two accounts, how is the bookkeeper to know that the debits and credits are equal? (§ 175.)
13. What is the object of special columns in books of original entry? (§ 176.)
14. Describe the method of posting from books of original entry with special columns. (§ 176, ¶ 1.)
15. Describe the cash book to be used in this set. (§ 177.)
16. Name the columns on the debit side and give the use of each. (§ 178.)
17. Name the columns on the credit side and give the use of each. (§ 179.)
18. How is cash proved? (§ 180.)
19. Give some objection to the form of cash book used. (§ 180, Note.)
20. What form of check book is used in this set? (§ 181.)
21. Why should the bookkeeper retain a copy of each deposit? (§ 181.)
22. Define auxiliary books. (§ 182.)
23. Define the notes receivable book. (§ 183.)
24. Define the notes payable book. (§ 184.)
25. How is the notes receivable book proved? (§ 183, ¶ 1.)
26. How is the notes payable book proved? (§ 184.)

NOTES RECEIVABLE

DATE OF PAPER YEAR	MONTH		TIME TO RUN	WHEN DUE Year	Jan. 1	Feb. 2	Mar. 3	Apr. 4	May 5	June 6	July 7	Aug. 8	Sep. 9	Oct. 10	Nov. 11	Dec. 12	AMOUNT		Rate of Int'st	WHEN PAID			REMARKS
191	Mch	1	60 da.	191				30									250		6%	May	1	191	Left at bank 4/25
191	Apr	14	30 .	191					14								97	65			14	191	
191		29	20 "	191					19								300				22	191	Sent to bank 5/17
191	May	11	30 .	191						10							364	70	6%	June	11	191	Left at bank 6/8
191		11	Sight	191.													194	37		May	16	191	

Illustration No. 63. Right Page of Notes Receivable Book.

NOTES PAYABLE

DATE OF PAPER YEAR	MONTH		TIME TO RUN	WHEN DUE Year	Jan. 1	Feb. 2	Mar. 3	Apr. 4	May 5	June 6	July 7	Aug. 8	Sep. 9	Oct. 10	Nov. 11	Dec. 12	AMOUNT		Rate of Int'st	WHEN PAID			REMARKS
191	Apr.	6	30 da.	191					6								75			May	7	191	
191		6	60 ..	191						5							50			June	5	191	
191		7	10 "	191				17									256	01		Apr.	18	191	
191		21	30 "	191					21								300			May	21	191	
191		25	30 ..	191					25								121	20			25	191	
191		28	3 "	191					1								669	53		May	1	191	

Illustration No. 64. Right Page of Notes Payable Book.

§ 185. **Retail Business.** The merchant engaged in the retail business undertakes to supply the demands of the consumer. He purchases the merchandise desired in the line of business in which he is engaged, from the wholesale merchant, jobber or manufacturer in such quantities as his business demands and keeps these in stock for sale. As a general rule, he delivers the merchandise sold either with his own delivery equipment or by contract. When credit is extended, custom has fixed the time of settlement as the first of the month following the sale. A bill is sent with the goods or by mail, and on the first of the month a statement is rendered that the customer may know the amount he owes. As a general rule, no discount is allowed for prompt payment. The successful retail merchant will endeavor to secure a discount on all purchases and take advantage of the discounts offered. Trade customs regulate the amount of the discount allowed for prompt payment of invoices.

§ 186. **Information relative to Coal, Hay, Grain and Feed.** Coal is purchased from the mines by the wholesale or retail dealer. This is billed per long ton of 2240 pounds, or short ton of 2000 pounds. The retail dealer usually makes his price per short ton, and sometimes, when sold in small quantities, per bushel. A bushel of coal weighs eighty pounds, hence a short ton consists of twenty-five bushels. Coal is shipped in open cars, a car containing from forty to fifty tons. The price is regulated by the grade, or size of the lumps. The large coal is designated as "Lump;" the next grade, "Family," which is practically the same except the lumps are not so large; the next grade, "Egg," which is smaller than lump, and used principally for open grates and heating stoves; the next grade, "Nut," which is used principally for cooking; the next grade is "Slack," or "Steam," which is practically all dust, accumulated from handling other coal, and is used for steam purposes. Some dealers do not carry as many grades as described above, and these grades are not always named as given here; however, this will illustrate to the student the method of grading coal. The lump coal always sells at the highest price, and the slack or steam coal at the lowest price. The coal is graded at the mines, but the dealer must re-grade it after it is delivered to him. While he pays for a car of lump coal at the mine, it will not all be lump when sold, because much of it will break in handling.

NOTE.—All coal purchased in this set is bought and sold per short ton of 2000 pounds.

Hay is put up in bales, which weigh 75 to 100 pounds. It is not practical to make all the bales the same weight, because the press and weight of the hay can not always be the same. It is usually sold per ton of 2000 pounds, or per 100 pounds.

Shelled corn, oats and other grain are usually sold by the bushel, but put up in sacks or bags. It is not practical to get an even number of bushels in a sack, hence it is necessary to weigh each one to determine the number of bushels it contains. A state law designates the weight of a bushel of grain. With few exceptions, a bushel of shelled corn weighs 56 pounds, and oats 32 pounds.

Feed consists of bran, shorts and other by-products of wheat and corn that are used for feeding horses and cattle. It is usually put up in sacks and sold by the sack or 100 pounds. When the price is per 100 pounds, it is necessary to weigh the sack in order to determine its value. When sold per sack, the weight does not have to be considered in estimating the value.

The method of making calculations in sales of the above is fully explained on the inside of the front cover of the sales book.

§ 187. Terms on Bills. It is customary for wholesale merchants, jobbers and manufacturers to allow their customers a special discount for prompt payment of merchandise purchased. The amount of discount, time in which the invoice may be paid, and discount deducted, are governed by trade customs in the line of business represented. The special discount and time are given in the terms on the invoice. If the terms are "2/10—n/30," the purchaser understands that he may deduct 2% from the face of the invoice if payment is made within ten days from the date of the invoice. If he does not make payment until the end of thirty days, he must pay the full amount, and this is due at that time. The terms, "3/30—n/60," indicate that a discount of 3% may be deducted if payment is made within thirty days from the date of invoice, and that the full amount is due at the end of sixty days. The discount is calculated on the value of the merchandise and must not be calculated on amounts charged for prepaid freight. If any of the merchandise described in the invoice has been returned for credit, this must be deducted before calculating the discount. Aside from the fact that the invoice must be paid within the time mentioned in order to secure the discount, the time is not considered in making the calculations. The inattentive student is apt to confuse this with discount (prepaid interest) deducted from notes.

§ 188. Part Payment of Invoices or Bills Subject to a Discount. It is not necessary to pay the full amount of an invoice or bill within the discount period in order to secure a discount on the payment. If a part payment is made, it is necessary to divide the amount of the payment by one hundred less the rate of discount in order to ascertain the value of the payment. If the face of the invoice is $200.00 and the rate of discount 3%, it would require $194.00 for full payment within the discount period. The amount of cash ($194.00) is not used in calculating the discount, this being calculated on the amount of the indebtedness ($200.00). For the same reason, when only a part payment is made, the amount of the cash is not multiplied by the rate in order to ascertain the amount of the discount. As the value of the payment is not known, it is necessary to divide in order to ascertain this. The student who understands the principles of percentage will have no trouble in understanding the reason for this. When the rate and percentage are given, it is necessary to divide the percentage by the base (100) minus the rate of discount. The result of dividing the amount received by one hundred, less the rate of discount, is the value of the payment; that is, the amount to be debited or credited. The difference between this and the amount received or paid is the discount.

Example: $190.00 is received as part payment of a sale which was subject to a 5% discount—$190.00 ÷ 95 (100—5) = $200.00. The customer is credited with $200.00 and Sales Discount charged with $10.00. We send a check for $500.00 as part payment of an invoice subject to a 3% discount—$500.00 ÷ 97 (100—3) = $515.46. We charge the creditor with $515.46 and credit Purchases Discount with $15.46.

EXERCISES IN RECEIPTS AND PAYMENTS, LESS DISCOUNT, IN FULL AND IN PART.

Make the required entries in the cash book for the following exercises. Use a double sheet of journal paper and write the debit entries (§ 178) on the left, and the credit entries (§ 179) on the right. Part payments subject to discount are explained in § 188.

EXERCISE No. 55. 1. January 9th, bought of L. H. Mabley, 3/10—n/30, $162.95. Paid this amount in full by check, January 18th. (The student will make the entry for the payment, but not for the purchase.)

2. February 5th, sold M. D. Puterbaugh, 4/10—n/30, $429.86. Received a check in payment of this on the 14th.

3. May 27th, bought from Union Mfg. Co., 3/10—n/60, $529.48. Paid, June 5th.

4. March 4th, bought of Anderson & Mumford, 5/10, 3/30—n/60, $1,642.87. Made payments as follows: March 12th, $950.00; March 25th, $291.00; March 31st, $97.00; April 2d, $97.00; May 1st, the balance.

5. July 16th, sold F. W. Ellis, 3/10, 2/30—n/60, $1,262.48; July 25th, received a check for $485.00; August 9th, $196.00; August 14th, $392.00; September 1st, $100.00; September 15th, the balance.

6. August 10th, bought of Davis Bros., 6/10, 5/30, 3/60—n/90, $2,992.50. Made payments as follows: August 19th, $1,500.00; 31st, $500.00; September 30th, $400.00; October 9th, $100.00; December 1st, the balance.

7. July 3d, sold C. E. Huff, 5/10, 3/30, 2/60—n/90, $2,556.98. Received payments as follows: July 12th, $1,200.00; 31st, $500.00; August 26th, $400.00; September 2d, $100.00; October 1st, $100.00; November 1st, the balance.

8. November 16th, bought from Cecil Bros., 3/10—n/30, $526.49. Paid, November 24th.

9. April 10th, sold J. T. Wissell, 4/10—n/60, $397.62. Received check in full, April 20th.

10. September 14th, bought from R. N. Gardner, 2/30—n/60, $629.07. Paid, October 12th.

11. October 11th, sold J. H. Schulmann, 4/10, 3/30, 1/60—n/90, $729.62. Received payment as follows: October 18th, $300.00; November 8th, $250.00; December 6th, $100.00; January 1st, the balance.

12. May 24th, bought of George Wolf & Sons, 7/10, 5/30, 3/60, 2/90—n/120, $4,782.63. Paid as follows: June 3d, $2,000.00; June 23d, $200.00; July 20th, $250.00; August 20th, $100.00; September 1st, $100.00; October 1st, the balance.

§ 189. A Business Letter is a communication written with a pen or typewriter relative to some business transaction. The ability to write a good business letter should be the pride of every business man. A letter should be in correct form, brief but explicit, and contain all the required information. The important features of a business letter are as follows: the date, the name of the person to whom it is addressed, the city in which he is located, salutation, the body of the letter, the form of closing and the signature.

¶ 1. *The Date* should be the day on which the letter is written, and is given that the person whom the letter is addressed will know the day it was written and can use this for reference.

¶ 2. *The Name of the Person* to whom the letter is written is begun at the left-hand side of the page, about three-fourths of an inch from the edge of the paper. If he is a professional man his title should precede his name or follow it. The former custom of writing "Mr." or "Messrs." has been discarded, because it is not necessary.

¶ 3. *The Address* refers to the city in which the person to whom the letter is sent resides, and the state in which this is located. It is written on the line below the name and may begin at the same point or about three-fourths of an inch to the right.

¶ 4. *The Salutation.* A business letter usually consists of the words "Gentlemen," "Dear Sir," "My dear Mr. Jones," etc. This is written on the line below the address and may begin at the same point as the name, or about three-fourths of an inch to the right of the address.

C. W. KEELAND & CO.
DEALERS IN
HAY, GRAIN, FEED AND COAL

Columbus, O., Apr 7, 191

Young & Doyle,
City.

Gentlemen,

Replying to your letter of this date asking for price on No. 2 Hay in car load lots, will quote you $15.00 per ton delivered at your place of business. We have a car in the yards and can have it placed tomorrow.

Kindly advise us at once, as we could not make this price unless we were permitted to unload the car at your warehouse.

Very respectfully,

C. W. Keeland & Co.

Per C. P. Zaner.

Illustration No. 65. A Business Letter.

¶ 5. *Body of the Letter.* This should state the facts under discussion in as brief a manner as possible. If more than one subject is discussed each should be given a separate paragraph. Red ink may be used for important information, if written with a typewriter; if written with a pen it may be underscored The body of the letter should begin about one and one-half inches from the left-hand edge of the paper and on the next line below the salutation. Each new line, except those beginning new paragraphs, should begin at the same point as the address, thus preserving an even margin of about three-fourths of an inch on the left-hand side of the letter. Each new paragraph is begun on a line with the body of the letter.

¶ 6. *The Closing.* This consists of the words "Very respectfully," "Respectfully yours," "Yours truly," etc., and the signature of the person or firm who is writing the letter. The closing words should begin on the next line below the body of the letter and in the center of the page; the name should be on the next line below and about three-fourths of an inch to the right. If signed by a firm, the name of the individual who wrote the letter should appear beneath that of the firm.

If it is necessary to use more than one sheet of paper in writing a business letter, the second page should begin on a new sheet and not on the back of the first. A carbon copy should be kept of each letter written and filed with the original letter for future reference. It shows ignorance and a lack of business courtesy to answer a business letter on the original letter, either on the back or front.

Illustration No. 65 shows one form of a letter and the student may use this as a guide.

§ **190. Arrangement of Accounts in the Ledger.** If the volume of business is large enough to justify it, it is better to keep three separate ledgers, one with the general accounts, one for accounts with creditors, and one for accounts with customers. If only one ledger is used, this should be divided into three parts, and the three classes of accounts mentioned above kept in separate parts of the ledger. When this is done, it is best to reserve the first part of the ledger for the general accounts, the second part for accounts with creditors and the third part for accounts with customers. The space allotted to each account must be determined by the number of amounts to be entered in it. The division of the ledger into sections applies whether a loose leaf or bound ledger is used. By dividing the ledger into sections, it requires less time for posting, checking statements received from creditors and rendering statements to customers.

NOTE.—Some bookkeepers do not write the name of the book of original entry in the ledger, especially when the ledger is divided into sections as suggested. Practically all the amounts entered on the credit side of a creditor's account are posted from the purchases book, and those entered on the debit side, from the credit side of the cash book. Practically all the amounts entered on the debit side of a customer's account are posted from the sales book, and those on the credit side, from the debit side of the cash book. The few debits or credits that may be posted from the journal can be indicated by writing, "Note, sixty days," or such other explanation as may be desired in the explanation column. This would indicate that the transaction was posted from the journal and that the page in the folio column referred to this book.

The student is instructed to write the name of the book of original entry in the page column or in the explanation column just to the left of the page number, and he should follow these instructions. The above explanation is given so that he will understand why these pages are omitted, in case he should take charge of a set of books in which the name of the book of original entry had not been entered. It requires very little time to indicate the book by a letter as "P" for purchases book; "S" for sales book; "C" for cash book, and "J" for journal; and by using these, the student is always sure of having a ready reference to the transaction in the book of original entry.

§ **191. Index.** The object of the index is to facilitate finding an account in the ledger. The space for the index may be the first few pages of the ledger, or in a special book depending entirely upon the number of pages and accounts in the ledger. It is best to have the space in the first part of the ledger, because a separate book is always sure to be somewhere else when needed. The pages for the index are special ruled and arranged to contain the name of the accounts in alphabetical order. All personal accounts should be written with the surname first and the initials following. The page should be written at the extreme right of the space reserved for the index and on the same line with the account. If the account is forwarded, a line can be drawn through the page on which it was

C. W. KEELAND A. D. MUNSON
FOLIO 1 **MONTHLY STATEMENT OF ACCOUNT**

May 1, 191__

Mr. Albert Suffrige,

IN ACCOUNT WITH 1429 Main St.

C. W. KEELAND & CO.
DEALERS IN
HAY, GRAIN, FEED AND COAL
INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance				
Apr.	5	*Mdse per Bill Rendered*			16	60

Showing one debit.

C. W. KEELAND A. D. MUNSON
FOLIO 2 **MONTHLY STATEMENT OF ACCOUNT**

May 1, 191__

M J. W. Blackburn,

IN ACCOUNT WITH 1219 Asylum St.

C. W. KEELAND & CO.
DEALERS IN
HAY, GRAIN, FEED AND COAL
INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance				
Apr.	13	*Mdse per Bill Rendered*	28	05		
	26		49	10	77	15

Showing two debits.

C. W. KEELAND A. D. MUNSON
FOLIO 3 **MONTHLY STATEMENT OF ACCOUNT**

May 1, 191__

Mr. J. M. Farris,

IN ACCOUNT WITH 1387 Riverside Ave.

C. W. KEELAND & CO
DEALERS IN
HAY, GRAIN, FEED AND COAL
INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance				
Apr.	5	*Mdse per Bill Rendered*	34			
		Cr.				
	6		20		14	

Showing one debit and one credit.

C. W. KEELAND A. D. MUNSON
FOLIO 4 **MONTHLY STATEMENT OF ACCOUNT**

May 1, 191__

M Day Foundry & Machine Co.

IN ACCOUNT WITH 216 Jackson Ave.

C. W. KEELAND & CO.
DEALERS IN
HAY, GRAIN, FEED AND COAL
INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance				
Apr.	9	*Mdse per Bill Rendered*	97			
	18		173	40	270	40
		Cr.				
	19		67	50		
	21		173	40		
	29		18	45	259	35
					11	05

Showing two debits and three credits.

C. W. KEELAND A. D. MUNSON
FOLIO 5 **MONTHLY STATEMENT OF ACCOUNT**

May 1, 191__

M M. J. Hall & Son

IN ACCOUNT WITH 306 Broadway

C. W. KEELAND & CO.
DEALERS IN
HAY, GRAIN, FEED AND COAL
INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

		Balance				
Apr.	2	*Mdse per Bill Rendered*	39	41		
	19		57	91	97	32
		Cr.				
	23				26	75
					70	57

Showing two debits and one credit

C. W. KEELAND A. D. MUNSON
FOLIO 6 **MONTHLY STATEMENT OF ACCOUNT**

June 1, 191__

M Quaid & De Armond,

IN ACCOUNT WITH 1215 Asylum St.

C. W. KEELAND & CO.
DEALERS IN
HAY, GRAIN, FEED AND COAL
INTEREST CHARGED ON ALL BILLS PAST DUE — ALL BILLS DUE FIRST OF THE MONTH FOLLOWING SALE

May	1	*Balance*	82	44		
	9	*Mdse per Bill Rendered*	82	81	165	25
		Cr.				
	1	Cash	65			
	22	"	96	50	161	50
					3	75

Showing a balance from preceding month

Illustration No. 66. Statements of Accounts.

located, and the new page written just to the left of it. By this means the page on which the account is to be found is the one nearest the account.

The student is apt to overlook the importance of indexing accounts, because there are so few in his ledger that he can find them very readily without the index. He should form a habit of indexing all accounts in his school work, as this would insure much better attention to this class of work when he goes into an office where it is absolutely necessary for the accounts to be indexed. If the ledger contains several hundred pages, it will require some time to locate an account that has not been properly indexed.

NOTE.—In loose leaf ledgers there is no index; the sheets which contain the accounts are arranged in the ledger in alphabetical order, and are separated by division sheets, having tabs on the edge to facilitate locating the accounts.

§ **192. Statement of Account.** Each customer is charged (debited) with the amount of each purchase, and a bill rendered that he may know he has received the goods charged to him, that the price is correct, and that there are no errors in the extensions. In a retail business where the accounts are due on the first of the month following the sale, statements should be rendered at that time, showing the present condition of the customer's account. The statement should show the date and amount of each charge and the date and amount of each credit, also the balance or difference between the charges and credits. It is not necessary for the statement to show the items charged, as the purchaser has these on the bill rendered at the time the sale was made. The statement sent on the first of the month is to show the charges and credits during the preceding month. If there is a balance from the preceding month, this is indicated on the first line ("Balance") of the statement. Illustration No. 66 shows the correct form of some statements the student will have to render on the first of May. All of these, with the exception of the one in the lower right-hand corner, are the same as those he will have to render, both in regard to form and amount. The exception shows the form to be used June 1st. This being a new business, there will be no balances on the statements rendered May 1st.

QUESTIONS.

1. Define the business of a retail merchant. (§ 185.)
2. How is coal graded? (§ 186.)
3. Name the grades used in this set (§ 186.)
4. What is a long ton? A short ton? (§ 186.)
5. How is hay prepared for the market?
6. How is it priced? (§ 186.)
7. How is corn, oats and other grain usually put on the market? (§ 186.)
8. How many pounds of oats to the bushel? Of corn? (§ 186.)
9. What is meant by terms on bills? (§ 187.)
10. What do the terms "4/10, 3/30—n/60" indicate?
11. When a customer pays a bill, less discount, how does he make his calculations? (§ 187.)
12. Is it necessary to pay all of the bill in order to get the benefit of the discount? (§ 188.)
13. When only a part of the bill is paid, how is the amount to be credited and the discount ascertained? (§ 188.)
14. What is a business letter?
15. Write a letter applying for the position of assistant bookkeeper in answer to an advertisement in one of your local papers.
16. Why is it best to have three separate ledgers? (§ 190.)
17. If three separate ledgers are kept, what does each contain? (§ 190.)
18. If the volume of business does not justify keeping three ledgers, how is the one ledger arranged? (§ 190.)
19. Why are accounts indexed? (§ 191.)
20. What is a statement of account? (§ 192.)
21. When are statements rendered? (§ 192.)
22. What must a statement show? (§ 192.)
23. If a customer owed a balance prior to the month for which the statement is rendered, where is it written? (§ 192.)
24. Why is it not necessary to show all the items on the statement?

§ **193. Sundry Resource Inventories.** At the close of the fiscal period there is usually property on hand and debts due the business that are not shown on the books. This is property, the value of which has been charged to some service account or debts due the business for services rendered others. It may be stamps, stationery, advertising matter, etc., the cost of which was charged to the Expense account, and debts due the business for services rendered such as the use of our team by others, etc. The value of this property must be considered in making the statements. At the close of the fiscal period, each service account must show the true condition for the period and the value of all property must be shown on the Financial statement. That this may be done, a Sundry Resource Inventories account is opened and charged for the value of the property, and the proper service account credited.

SUNDRY RESOURCE INVENTORIES ACCOUNT.

§ **194. The Object of this Account** is to show the value of property on hand at the end of the fiscal period and debts due the business for services rendered, but not shown on the books. It is a statistical account, and used only at the close of the fiscal period.

Debit Sundry Resource Inventories Account:

¶ 1. For the value of property on hand at the end of the fiscal period, the value of which is not shown on the books.

¶ 2. For the amount of debts due the business for services rendered that are not shown on the books.

Credit Sundry Resource Inventories Account:

¶ 3. For the value of property or services debited to this account, this entry being made after the ledger is closed, with the object of transferring the value of the property to the proper service account.

¶ 4. *The Balance of this Account,* before the ledger is closed, will show the value of property on hand at the close of the fiscal period which was not shown on the books. It is a resource and appears in the Financial statement after all of the other resources have been entered. Current resources included in this account may be listed with other current resources, if desired.

¶ 5. *To Close the Sundry Resource Inventories Account.* This account is closed by a journal entry after all the other accounts in the ledger have been closed. The amounts charged to it are transferred to the proper service accounts. The name of this account is written in the explanation column on the credit side; the account is ruled with single and double red lines and footed in black ink.

Sundry Resource Inventories

191					191				
Apr.	30	Stationery on hand	J5	20	Apr.	30	Gen'l Admr. Expense	J6	20
		Delivery services	J5	80			Selling Expense	J6	80
				100					100

Illustration No. 67. Sundry Resource Inventories Account.

§ **195. Sundry Liability Inventories.** At the close of the fiscal period there are usually some debts which are owed by the business but not paid, the value of which will be charged to some service account when paid. These may include pay roll, rent, interest, etc. It is necessary to take these liabilities into consideration in making the statements. A journal entry is made debiting the proper service account and crediting the Sundry Liability Inventories account.

SUNDRY LIABILITY INVENTORIES ACCOUNT.

§ 196. The Object of this Account is to show the various obligations owed by the business at the end of the fiscal period but not shown on the books. The account is opened for a statistical purpose, and is not used except at the close of the fiscal period.

Debit Sundry Liability Inventories Account:

¶ 1. For the amount or amounts credited to this account, this entry being made after the books are closed, with the object of transferring the amounts to the proper service account or accounts.

Credit Sundry Liability Inventories Account:

¶ 2. For the amount of any obligations owed by the business at the close of the fiscal period but not shown on the books.

¶ 3. *The Balance of this Account* will show the debts owed by the business at the close of the fiscal period but not represented on the books at the time the obligation was created. It is a liability, and appears on the Financial statement after all other liabilities have been entered.

¶ 4. *To Close the Sundry Liability Inventories Account* This account is closed by a journal entry after all other accounts in the ledger have been closed. The name of the service account or accounts into which it is closed is written in the explanation column on the debit side; the account is ruled with single and double red lines and footed in black ink.

Sundry Liability Inventories

191					191				
Apr.	30	Gen'l Admr Expense	J.6	50	Apr.	30	Rent	J.5	50
		Selling Expense	J.6	70			Board for horses	J.5	70
				120					120
				120					120

Illustration No. 68. Sundry Liability Inventories Account.

§ 197. Trading Statement. As explained in § 80, the object of the Profit and Loss statement is to show the various profits and losses. One of the principal profits is that made by buying and selling merchandise and is termed the "Gross Trading Profit." As explained, this may be shown on the Profit and Loss statement, or in a separate statement, which is known as the Trading statement. The object of this statement is to show the gross trading profit, and is made from the various accounts that affect the purchases and sales of merchandise. To estimate the profit on merchandise, it is necessary to ascertain the net cost of goods sold, and deduct this from the sales, which is the returns from goods sold.

The difference of the Purchases account shows the invoice cost of the merchandise bought. The difference between the two sides of the Freight In account shows the freight charges on goods purchased. The difference between the two sides of the Purchases Discount account shows the net amount of discounts deducted by us for prompt payment as per terms of invoices and reduces the cost of the merchandise purchased. The net cost of goods sold is the difference between the net cost of goods purchased during the fiscal period, plus the goods on hand at the beginning of the period, less the present inventory, which is the value of the salable merchandise on hand estimated at cost price. The difference between the two sides of the Sales account is the net returns from sales. The gross trading profit is the difference between the net cost of goods sold and the net returns from sales. The first part of illustration No. 75 shows the form of a Trading statement.

EXERCISES IN MAKING THE TRADING STATEMENT.

The following exercises are given to teach the student the method of making the Trading statement and the correct form, as explained in § 197 and shown in illustration No. 75. These statements are to be made on journal paper and presented to the teacher for approval. He will approve these and return them, as they are required in exercise No. 64.

EXERCISE No. 56. At the close of the fiscal period, December 31, 191.., the bookkeeper for W. R. Carter & Co. is required to make a Trading statement. The accounts affecting this statement are as follows:

Inventory, Dr. (merchandise on hand June 30th, which was the close of the preceding fiscal period) $1,586.29; Purchases, Dr. $3,962.97, Purchases, Cr. $518.46; Freight In, Dr. $429.65; Purchases Discount, Cr. $286.40; Sales, Dr. $362.99, Sales, Cr. $5,927.84; Sales Discount, Dr. $196.68.

The present value of salable merchandise on hand, as shown by the inventory of merchandise in stock December 31st, is $1,009.78.

The net returns from sales is ascertained by deducting the debit side of the Sales account and balance of the Sales Discount account, from the credit side of Sales account. This deduction is made on the Trading statement because the statement must show all of the calculations necessary to ascertain the gross trading profit. The first entry on the Trading statement must show the total sales. In this case, the amount is placed in the first column. On the line below this write "Less merchandise returned," and on the next line, "Sales Discount;" enter the total just beneath the sales and take the difference and enter it in the second column on the same line. In the same way the net cost of goods purchased is ascertained by deducting the value of goods returned by us (Purchases Account, Cr.), and discounts deducted (balance of Purchases Discount Account), from the total purchases (Purchases Account, Dr.). The first part of illustration No. 75 shows the correct form.

EXERCISE No. 57. At the close of the fiscal period, April 30, 191.., the bookkeeper for C. W. Keeland & Co. is required to make a Trading statement. The accounts affecting this statement are as follows: Purchases, Dr. $5,125.83; Freight In, Dr. $1,233.97; Purchases Discount, Cr. $44.65; Sales, Cr. $4,195.71.

This being the close of the first fiscal period, there is no Inventory account. The present value of the goods on hand, as shown by the inventory made at the close of the fiscal period, is $2,945.94.

EXERCISE No. 58. At the close of the fiscal period, September 30, 191.., the bookkeeper for Donaldson Bros. is required to make a Trading statement. The accounts affecting this statement are as follows:

Purchases, Dr. $7,218.70, Purchases, Cr. $295.75; Sales, Dr. $429.86, Sales, Cr. $10,687.49; Freight In, Dr. $1,007.26, Freight In, Cr. $77.98; Sales Discount, Dr. $218.45, Sales Discount, Cr. $10.80; Inventory, Dr. (salable goods on hand June 30th, which was the closing date of the preceding fiscal period) $3,691.87; Purchases Discount, Dr. $20.00, Purchases Discount, Cr. $397.86.

The present cost value of merchandise on hand, as shown by the inventory of salable goods in stock September 30th, is $3,029.82.

The net cost of goods purchased, and returns from sales is shown on the Trading statement, as explained in the preceding exercises. The difference of the Freight In, Sales Discount, and Purchases Discount accounts are used, as it is not necessary to show the calculations necessary to ascertain the difference of these accounts.

EXERCISE No. 59. At the close of the fiscal period, December 31, 191.., the bookkeeper for Borches & Co. makes a Trading statement. The accounts affecting this statement are as follows:

Sales, Dr. $354.89, Sales, Cr. $12,629.47; Inventory, Dr. (salable merchandise on hand September 30th, which was the close of the preceding fiscal period) $5,291.36; Freight In, Dr. $1,469.75, Freight In, Cr. $180.47; Purchases, Dr. $9,627.84, Purchases, Cr. $150.00; Purchases Discount, Dr. $36.50, Purchases Discount, Cr. $987.62.

The present value of salable merchandise on hand, as shown by the inventory of merchandise in stock December 31st, is $5,742.91.

TRADING ACCOUNT.

§ 198. **The Object of this Account** is to show the various costs of merchandise and returns from sales for the fiscal period. It is a statistical account, and is opened only at the close of the fiscal period, when the ledger is closed. After the ledger is closed, it remains in balance until the next closing time.

Debit the Trading Account:

¶ 1. For the cost of all salable merchandise on hand at the close of the preceding fiscal period, which is the value of merchandise as shown by the inventory at that time.

¶ 2. For the difference of the Purchases account, which is the invoice cost of merchandise purchased, less any that may have been returned.

¶ 3. For the difference of the Freight In account, which is the net amount paid for freight on merchandise purchased.

¶ 4. For the difference of the Sales Discount account, which is the net amount of discount deducted by our customers for prompt payment of obligations.

¶ 5. For its own difference, the balance being closed into the Profit and Loss account.

Credit the Trading Account:

¶ 6. For the cost of all salable merchandise on hand at the close of the current fiscal period, which is the same as the value of the merchandise, as shown by the present inventory.

¶ 7. For the difference of the Sales account, which is the net return from merchandise sold.

¶ 8. For the difference of the Purchases Discount account, which is the net amount deducted by us for prompt payment of obligations.

(If the Trading account shows a loss, the difference would be entered on this side instead of the debit side, as explained in ¶ 5.)

¶ 9. *The Difference between the two sides of this Account* is the gross trading profit, that is, the amount gained by purchasing and selling merchandise. This difference is the same as the gross trading profit shown on the Trading statement. This account is not used in making the Profit and Loss statement, but is opened that the ledger may show the detailed information shown on the Trading statement. Some accountants do not use this, but close these accounts direct into the Profit and Loss account.

¶ 10. *To Close the Trading Account.* After the Trading statement has been completed and proved to be correct by the Profit and Loss, and Financial statements, all the accounts which go to make up the Trading statement are closed into the Trading account by a journal entry. This entry opens and closes the account, and when it has been posted the two sides will be equal. It is then ruled with single and double red lines and the footings entered in black ink on each side.

Trading Account

191						191					
Apr	30	Purchases	J6	5125	83	Apr	30	Inventory	J6	2945	94
		Freight	J6	1233	97			Sales	J6	4195	71
		Profit and Loss	J6	826	50			Purchases Dis	J6	44	65
				7186	30					7186	30

Illustration No. 69. Trading Account.

§ **199. Journal Entries Required at the Close of a Fiscal Period.** At the close of each fiscal period, before the final Trial Balance is made, certain special journal entries are required. These will usually indicate the proper adjustment for insurance used, depreciation on fixed investments, reserve for bad debts (§ 213), property on hand or debts due the business but not shown on the books, and obligations owed by the business but not shown on the books.

¶ 1. *Insurance.* The Insurance account is charged with all amounts paid for insurance. At the end of the fiscal period it is necessary to credit this account with the insurance used and charge the proper service account. Amounts paid for insurance on property purchased for use in the business and property purchased for sale is usually considered one of the expenses of the business; though some accountants charge insurance for property purchased for sale to the cost of that property. The amount of insurance that has been used will be the same proportionate part of the amount paid for insurance, as the fiscal period is of one year; thus, if the fiscal period is six months, one-half of the amount paid for insurance must be credited to the Insurance account; if three months, one-fourth of the amount; if one month, one-twelfth of the amount. If a policy has been issued during the period, only the number of months it has run is considered. To adjust the insurance it is necessary to make a journal entry with one or more debits and one credit. The General Administrative Expense account is debited with the amount of insurance on property purchased for use in the business and property for sale, and the Insurance account credited. Insurance on buildings would be charged to Real Estate Expense and Revenue account. The first entry in illustration No. 70 shows the correct form of entry required at the close of April.

¶ 2. *Depreciation on Fixed Investments.* Property purchased for use in the business must of necessity decrease in value on account of its use. The amount of this decrease must be considered when the statements of the business are made, if the correct results are to be shown. When the amount of depreciation has been ascertained, the bookkeeper must make a journal entry, debiting the proper service account and crediting the Reserve for Depreciation account with each kind of property purchased for use in the business. The entry will require one or more debits and one or more credits, depending upon the kind of property purchased for use in the business and the service accounts affected by the depreciation. The second entry in illustration No. 70 shows the correct form required at the close of April. At this time there are three kinds of property purchased for use in the business, and the depreciation on these affects two accounts. The use of office equipment and store fixtures decreases the value of these, hence increases the cost of general administrative expense. The use of delivery equipment decreases the value of this equipment and increases the cost of the selling expense. If a reserve is set aside for bad debts, the entry is made at this time (§ 213).

¶ 3. *Property on Hand.* At the close of each fiscal period, there is usually some property on hand, the value of which is not on the books, and there may be some debts due the business that are not shown. These must be considered in making the statements, if the true results are to be obtained. When the value of this property is ascertained, the bookkeeper must make a journal entry that will permit it to be shown on the books, hence included in the statements. This journal entry will require one debit and one or more credits, depending upon the kind of property on hand. The Sundry Resource Inventories account is debited, and the proper service account credited, as the value of this property always affects some service account. The third entry in illustration No. 70 shows the correct form of entry April 30th. At this time there is property on hand consisting of stamps, stationery, etc., valued at $20.00, and there is an account of $80.00 due from Borches & Co. for delivery service. When this entry is posted to the ledger, the kind of property or nature of the services should be written in the explanation column in the Sundry Resource Inventories account, and the nature of the property or obligation written in the explanation column of the service account credited.

¶ 4. *Obligations Owed by the Business.* At the close of each fiscal period there may be outstanding obligations that do not appear on the books. It is necessary to take these into consideration, if the statements are to show the true condition of the business. After these have been ascertained

April 30

Gen'l Admr. Expense		4 13	
Insurance			4 13
Proportionate insurance for the fiscal period; one twelfth of total amount paid for insurance.			
30			
Gen'l Admr Expense		33 53	
Selling Expense		22 50	
Reserve for Dep. Office Equip.			23 33
Reserve for Dep. Store Fixtures			10 20
Reserve for Dep. Delivery Equip.			22 50
Five percent depreciation on office equipment, store fixtures, and delivery equipment.			
30.			
Sundry Resource Inventories		100	
Selling Expense			80
Gen'l Admr. Expense			20
Due from Borches & Co. for delivery service $80.00; stamps, stationery, and office supplies on hand $20.00.			
30			
Gen'l Admr. Expense		50	
Selling Expense		70	
Sundry Liability Inventories			120
Unpaid rent of ware-house for April, $50.00; due Webb Livery Co. for board of horses, $70.00			

Illustration No. 70. Journal Entries Required at the Close of the Fiscal Period.

the bookkeeper makes the journal entry, debiting the service account or accounts that will be charged when these obligations are paid, and crediting the Sundry Liability Inventories account. The journal entry will require one or more debits, depending upon the service accounts affected, and one credit. The fourth entry in illustration No. 70 shows the correct form of entry required April 30th. When this entry is posted to the ledger, the nature of the obligation should be written in the explanation column in the Sundry Liability Inventories account, and the name of this account written in the explanation column of the service account debited.

EXERCISES IN JOURNAL ENTRIES AT THE CLOSE OF THE FISCAL PERIOD.

The following exercises are given the student to illustrate the method of making the journal entries required at the close of the fiscal period, as explained in § 199. Illustration No. 70 shows the form of making the entry. The student is to make these entries on journal paper and present to the teacher for approval.

EXERCISE No. 60. At the close of the fiscal period, which extends from January 1st to April 30th of the same year, the accounts affecting the journal entries are as follows: Office Equipment, Dr. $466.50; Store Fixtures, Dr. $204.00; Delivery Equipment, Dr. $450.00; Insurance, Dr. $49.50; 5% depreciation on the fixed investment accounts; Borches & Co. owe the business $80.00 for delivery services; stamps, stationery, etc., on hand, $20.00. Debts due by the business not represented on the books; December rent, $50.00; livery bill for board of horses, $70.00.

EXERCISE No. 61. At the close of the fiscal period, which extends from July 1st to December 31st of the same year, the accounts affecting the journal entries are as follows: Office Equipment, Dr. $500.00; Store Fixtures, Dr. $400.00; Delivery Equipment, Dr. $600.00; Insurance, Dr. $250.00; 5% depreciation on the fixed investment accounts. H. L. Mason owes the business $38.60 for delivery services; stamps, stationery, etc., on hand, $26.50. Debts due by the business not represented on the books: December rent, $60.00; livery bill for board of horses, $75.00; pay roll, $36.50. (§ 170, ¶ 1.)

EXERCISE No. 62. At the close of the fiscal period, which extends from January 1st to April 30th of the same year, the accounts affecting the journal entries are as follows: Delivery Equipment, Dr. $750.00; Office Equipment, Dr. $500.00; Store Fixtures, Dr. $600.00; Insurance, Dr. $160.00. 5% is to be taken for the depreciation on Office Equipment and Store Fixtures, and 7½% from Delivery Equipment. W. E. Drummond owes us $46.75 for delivery services, which will be collected on the first of the month. There are stamps, stationery, etc., on hand valued at $40.00. Debts due by the business and not represented on the books: pay roll, $48.60; rent, $100.00; livery bill for board of horses, $50.00.

EXERCISE No. 63. At the close of the fiscal period, which extends from January 1st, 191., to June 30th of the same year, the accounts affecting the journal entries are as follows: Office Equipment, Dr. $800.00; Store Fixtures, Dr. $400.00; Delivery Equipment, Dr. $1200.00; Insurance, Dr. $200.00. 5% is deducted from Office Equipment and Store Fixtures, and 6% from Delivery Equipment for depreciation; also $80.00, which is the value of the horse that died of overeating. (See note on page 143.) H. J. Allen owes the business $62.50 for delivery services; stamps, stationery, etc., on hand, $62.00; accrued interest on notes due the business, $32.50. Debts owed by the business and not represented on the books; rent for June, $100.00; pay roll, $83.60; accrued interest on notes, $38.65; commission due Brownfield & Co. on a sale of merchandise made on consignment, $52.50; board of horses, $65.80.

§ 200. Closing the Ledger by Journal Entries. As explained in § 84, there are two methods of closing the ledger—one with red ink and the other by journal entry or journal entries. The method of closing by red ink was used in the preceding set. The journal entry method will be used in this set. To close the ledger by a journal entry requires at least two entries—one to close those accounts affecting the Trading statement, and the other those accounts affecting the Profit and Loss

statement. If it is necessary to open a Sundry Resource Inventories and a Sundry Liability Inventories account, it will require an entry to close each of these. The Capital account or accounts is closed by the use of red ink.

¶ 1. *To Close Accounts Affecting the Trading Statement.* After the Financial, Trading, and Profit and Loss statements have been made and proved to be correct, the accounts affecting the Trading statement are closed into a Trading account, that the ledger may show the same facts as the Trading statement. This entry will require two or more debits and two or more credits, depending upon the number of accounts affecting the Trading statement. The first entry in illustration No. 71 shows the correct form for closing these accounts April 30th. The Inventory account is debited with the

April 30

Inventory	2945 94	
Sales	4195 72	
Purchases Discount	44 65	
Trading Account		7186 31
Trading Account	7186 31	
Purchases		4927 97
Freight In		1431 83
Profit & Loss		826 51
Entries to close the trading accounts into the Trading Account and to close this account into the Profit and Loss account.		
30.		
Profit & Loss	826 51	
Gen'l Admr. Expense		474 51
Selling Expense		164 50
C. W. Keeland, Capital		93 75
A. D. Munson, Capital		93 75
To close profit and loss accounts and the Profit & Loss account.		

Illustration No. 71. Journal Entries Required to Close the Ledger.

present value of salable merchandise on hand, as shown by the inventory at the close of the fiscal period; the Sales account is debited for the difference of this account; the Purchases Discount account is debited for the difference of this account; the Trading account is credited for the total. This closes all of the accounts that will appear on the credit side of the Trading account. The Trading account is debited with the total of those accounts that appear on the debit side; the Purchases account is credited with its difference; the Freight In account is credited with its difference; the Profit and Loss account is credited with the difference between the two sides of the Trading account, which is the same amount as the gross trading profit on the Trading statement. When this entry is posted, the Trading account is not credited for the one amount written on the same line with it, but with each of the three amounts written in the debit column, the name of the accounts being written in the explanation column. The Trading account is not debited for the one amount written on the same line with it, but with each of the three amounts written in the credit column, the name of the accounts being written in the explanation column. In this way, the debit side of the Trading account shows all the losses that appear on the Profit and Loss statement, and the credit side, all the gains that appear on this statement, thus preserving a permanent record of the Profit and Loss statement.

¶ 2. *To Close Accounts Affecting the Profit and Loss Statement.* After the entry to close the accounts affecting the Trading statement has been made and posted, the Profit and Loss account will show a credit, the amount of which is the same as the gross trading profit. It is necessary to close the other accounts showing a profit or loss into the Profit and Loss account and to transfer the balance of this account to the Capital account or accounts. This is done by a journal entry, which requires one or more debits and two or more credits, depending upon the number of accounts to be closed. The second entry in illustration No. 71 shows the correct form for closing the accounts that affect the Profit and Loss statement April 30th. At this time, there are no other profits except the gross trading profit. If there had been, each account showing a profit would have been debited. There are only two accounts that show a loss, these being the General Administrative Expense and the Selling Expense. The Profit and Loss account is debited with the difference, and the General Administrative Expense account and the Selling Expense account are each credited with the amount with which they are debited. Each Partner's Capital account is credited with his share of the net gain. When this entry is posted, the Profit and Loss account is not debited with the one amount written on the line with it, but with each of the four amounts written in the credit column, the name of the accounts being written in the explanation column. The student will observe that in making this journal entry, each account that shows a profit on the Profit and Loss statement is debited, and each account that shows a loss on this statement is credited, the Profit and Loss account being debited with the difference. If the business has been conducted at a loss, the Profit and Loss account would be credited instead of debited.

¶ 3. *To Close the Capital Account.* Each Partner's Capital account is closed by the use of red ink, as explained in § 151, ¶ 10. The difference, which is the partner's present capital, is entered on the debit side in red ink as follows: The date; the words "Present Capital," and the amount. The account is then ruled with single and double red lines, footed in black ink and the Present Capital brought down on the credit side in black ink under date of the first day of the new fiscal period, which is the next day after the closing. See illustration No. 47.

¶ 4. *To Close the Sundry Resource and Sundry Liability Inventories Accounts.* After the Capital accounts have been closed and the present capital brought down, a journal entry is made to close the Sundry Resource Inventories and the Sundry Liability Inventories accounts into the proper service accounts. These accounts are opened for a statistical purpose only, and should be closed before the beginning of the next fiscal period. This is done that each service account may show its true value. The journal entry will require one or more debits and one or more credits, depending upon the number of service accounts affected. Two distinct entries may be made if desired—one closing the Resource Inventories account and another closing the Liability Inventories account. The student will better understand this method. Illustration No. 72 shows the correct form for closing these accounts

April 30th. As two service accounts are affected by the Sundry Resource Inventories account, the first entry must have two debits. When this entry is posted, the Sundry Resource Inventories account is not credited with the one amount written on the same line with it, but with the two amounts entered in the debit column, the name of the accounts to which the amounts are transferred being written in the explanation column. As two accounts are affected by the Sundry Liability Inventories account, the second entry requires two credits. When this entry is posted, the Sundry Liability Inventories account is not debited with the one amount written on the same line with it, but with the two amounts written in the credit column, the name of the account to which the amounts are transferred being written in the explanation column. When these entries have been made and posted, the ledger is closed and the difference of each account will show a resource, a liability, or the Present Capital, which is the condition that must exist at the beginning of the business or at the beginning of each fiscal period.

April 30.

Gen'l Admr. Expense	20	
Selling Expense	80	
Sundry Resource Inventories		100
To close the Sundry Resource Inventories account.		
30		
Sundry Liability Inventories	120	
Gen'l Admr. Expense		50
Selling Expense		70
To close the Sundry Liability Inventories account.		

Illustration No. 72. Journal Entries Required after the Ledger is Closed.

NOTE.—Some accountants do not close the Sundry Resource and Liability Inventories accounts at the time the ledger is closed, but let these accounts close themselves as the obligations are paid, the property consumed, or the debts collected. This is not the best practice, because the bookkeeper must keep in mind the debts or special obligations shown by these accounts. It is better to have each service account show the true results at the beginning of the fiscal period. If \$50.00 is due for rent, when the proper entry has been made and posted, the General Administrative Expense account will show a credit of \$50.00. Sometime after the beginning of the new fiscal period this obligation will be paid and the General Administrative Expense account charged. The credit offsets this charge and permits the account to show the true result at the end of that fiscal period. If the value of stamps, stationery, etc., on hand at the close of the fiscal period is \$20.00, the General Administrative Expense account will be debited with this amount after the proper entry has been made, as explained above. If no additional property of this kind is purchased, and at the end of the new fiscal period the value of this property is \$5.00, then the General Administrative Expense account would show the correct amount of this property consumed during the fiscal period. If \$70.00 is due a livery company for board of horses at the close of the fiscal period, the Selling Expense account would be credited with \$70.00 after the correct entry has been made as explained above. When this obligation is paid the Selling Expense account is debited because it is a part of the selling expense. The credit offsets the debit and permits the Selling Expense account to show the true results at the close of that fiscal period. If \$80.00 is due us for livery services rendered others, the Selling Expense account will be debited with the amount after the correct entry has been made and posted. When this amount is collected the Selling Expense account is credited. The debit offsets this credit and permits the account to show the true results at the close of that fiscal period.

While the entry to close the Sundry Resource and Liability Inventories accounts is not a part of the ledger closing, yet we have included it in this, because we believe the student should learn to close these accounts as explained. If he learns to close them at the same time the ledger is closed, he will form the correct habit for the best practice when he goes into an office. See Illustrations Nos. 71 and 72.

EXERCISES IN THE JOURNAL ENTRIES REQUIRED FOR CLOSING THE TRADING ACCOUNTS INTO THE TRADING ACCOUNT.

The following exercises are given to teach the student the method of making the required journal entry for closing those accounts that are used in making the Trading statement into the Trading account, and to close the difference of this account into the Profit and Loss account. These entries are made on journal paper and presented to the teacher for approval.

EXERCISE No. 64. Make the required journal entry to close the accounts affecting the Trading statement into the Trading account in exercises Nos. 56. 57, 58 and 59. The first entry in illustration No. 71 shows the correct form of closing the accounts in Exercise 57. When this work is presented to the teacher for approval, return exercises Nos. 56, 57, 58 and 59.

EXERCISES IN CLOSING PROFIT OR LOSS ACCOUNTS INTO THE PROFIT AND LOSS ACCOUNT.

The object of these exercises is to teach the student the method of closing profit or loss accounts into the Profit and Loss account, and this account into the Investment account or accounts. The entries are to be made on journal paper and presented to the teacher for approval. The second entry in illustration No. 71 shows the form of entry and necessary explanation.

EXERCISE No. 65. 1. The accounts represented on the Profit and Loss statement, April 30th, are as follows:

General Administrative Expense, Dr. $474.51; Selling Expense, Dr. $164.50.

The gross trading profit (the amount with which the Profit and Loss account is credited from the journal entry closing the Trading account) is $826.50. The net profit is closed into the Capital accounts of C. W. Keeland and A. D. Munson, each receiving one-half.

By referring to the second entry in illustration No. 71, the student will note that the Profit and Loss account is debited for the total credit; which, in this case, is represented by only one profit, and that this account is credited with the two accounts that show a debit balance.

2. The accounts represented on the Profit and Loss statement, June 30th, are as follows:

Commission, Cr. $269.87; Interest, Cr. $68.45; General Administrative Expense, Dr. $581.62; Selling Expense, Dr. $309.11.

The gross trading profit is $965.28. The net profit is closed into A. H. Smith's Capital account and D. L. Robinson's Capital account, each being credited with one-half.

This journal entry will require three debits (one for commission, one for interest, and one for profit and loss), and four credits (one for general administrative expense, one for selling expense, one for A. H. Smith, and one for D. L. Robinson). The first debit shows the amount with which the Commission account is credited; the second debit shows the amount with which the Interest account is credited; the third debit shows the difference of the Profit and Loss account after the credits have been posted. The first credit shows the amount with which General Administrative Expense is debited; the second credit shows the amount with which Selling Expense is debited; the third credit shows Mr. Smith's one-half of the net profit; the fourth credit shows Mr. Robinson's one-half of the net profit.

3. The accounts used in making the Profit and Loss statement, December 31st, are as follows: General Administrative Expense, Dr. $508.76; Selling Expense, Dr. $379.65; Commission, Dr. $98.64; Interest, Cr. $32.71.

The gross trading profit is $1,797.62. The net profit is closed into C. W. Day's Capital account and H. Y. Joiner's Capital account, each receiving one-half of the net profit.

This entry requires two debits and five credits. See explanation under Exercise No. 66.

4. The following accounts are used in making the Profit and Loss statement, March 31st: Real Estate Expense and Revenue, Cr. $156.14; Commission, Cr. $209.46; General Administrative Expense, Dr. $642.75; Selling Expense, Dr. $217.56; Traveling Expense, Dr. $204.55; Interest, Dr. $36.95.

The gross trading profit is $1,262.78. The business is owned by W. H. Andrews, R. M. Staples and J. C. Williamson; each is credited in his Capital account with an equal part of the net profit.

5. The following accounts are used in making the Profit and Loss statement, May 31st: Income from Stocks and Bonds, Cr. $216.44; Interest, Cr. $129.76; Commission, Cr. $155.47; General Administrative Expense, Dr. $846.98; Selling Expense, Dr. $439.62; Delivery Expense, Dr. $207.65; Traveling Expense, Dr. $298.19; Advertising, Dr. $316.55; Real Estate Expense and Revenue, Dr. $296.52.

The gross trading profit is $2,569.83. The business is owned by D. H. Miller and Samuel O. Davidson. Each is to receive an equal proportion of the net profit. It is agreed that $200.00 of the profit will be credited to each Partner's Personal account for withdrawals and the remainder to his Capital account.

This entry will require four debits and ten credits; as each Partner's Personal account is credited with $200.00 and his Capital account with the difference between $200.00 and one-half the net profit, these four credits, together with the six accounts, which show a debit balance, make the ten credit entries.

6. The following accounts are used in making the Profit and Loss statement, September 30th: Real Estate Expense and Revenue, Cr. $316.49; Interest, Cr. $36.52; General Administrative Expense, Dr. $586.90; Selling Expense, Dr. $432.75; Commission, Dr. $159.46.

The gross trading profit is $729.63. The business is owned by Robert H. St. Paul and John W. Mason. The profit or loss is to be shared equally.

This entry will require five debits and three credits. The Capital account of each partner is debited with one-half of the net loss.

§ 201. Trial Balance, April 30th. As stated in § 66, the Trial Balance is a list of all the open accounts on the ledger, showing the debits and credits, or balance of each. The total of the debit side of the Trial Balance must be the same as the total of the credit side, because the amounts debited and credited in each transaction are the same. Accounts that balance are not used because the two sides are equal. Use the difference of the Partners' Personal accounts, Notes Receivable, Notes Payable, accounts with Customers and Creditors, and both sides of all other accounts that have debits and credits. Make the Trial Balance on journal paper, and when approved by the teacher, copy it in the space arranged for Trial Balances in the journal, as instructed on the inside of the front cover. Read these instructions carefully that the accounts may be arranged in the proper order.

§ 202. Statement of the Business, April 30th. As explained in § 78, the statement of the business consists of three separate statements—the Financial statement (§ 79), Trading statement (§ 80, ¶ 1, and § 197), and Profit and Loss statement (§ 80).

(Continued on page 183.)

TRIAL BALANCE, C. W. KEELAND & CO., APRIL 30, 191

1	C. W. Keeland Capital,			1500	00
1	A. D. Munson "			1500	00
2	C. W. Keeland Personal,			40	00
2	A. D. Munson			50	00
✓	Cash,	850	48		
5	Inventory,	1121	74		
6	Purchases,	4115	09	109	12
6	Freight In,	1241	86		
6	Sales,	36	54	4436	87
7	Purchases Discount,			46	75
7	Sales Discount,	116	27		
8	Interest,			8	17
9	Commission,			20	56
11	Insurance,	45	37		
12	General Administrative Expense,	453	45		
13	Selling Expense,	165	75		
14	Reserve for Bad Debts, 5%,			67	66
15	Real Estate,	1000	00		
15	Real Estate, Expense and Revenue.	32	34		
16	Office Equipment,	466	50		
16	Reserve for Dep. of Office Equip. 5%,			23	33
17	Store Fixtures,	204	00		
17	Reserve for Dep. of Store Fixtures, 5%,			10	20
18	Delivery Equipment,	450	00		
18	Reserve for Dep. of Delivery Equip. 5%,			22	50
20	Profit and Loss,	67	66		
24	Notes Receivable,	645	65		
25	Notes Payable,			2114	73
26	Sundry Resource Inventories,	100	00		
26	Sundry Liability Inventories,			120	00
✓	Accounts Receivable,	1353	01		
✓	Accounts Payable,			2395	82
		12465	71	12465	71

INVENTORY, salable merchandise on hand April 30th, $3045.94

Illustration No. 73. Trial Balance, April 30th.

Trial Balance, Illustration No. 73. This contains all open accounts on the ledger, and is made after the entries required at the close of the fiscal period have been made and posted. All property owned by the business, debts due the business and obligations owed by the business, together with depreciations for wear and tear of fixed investments are represented by accounts. The only property not included is the merchandise on hand, and this is shown at the bottom of the illustration.

Financial Statement, Illustration No. 74. This includes all resources and liabilities. The depreciations of property purchased for use in the business are deducted from the cost value of the property. The difference between the total resources and total liabilities is the present capital of the business. The difference between this and the investments at the beginning of the business is the net gain for the current fiscal period, which is divided equally between the partners. The present capital is the total of each partner's present capital—his investment plus his share of the profit.

Trading, and Profit and Loss Statement, Illustration No. 75. The Trading statement is shown first. The goods returned plus the discount allowed to customers, deducted from the returns from sales, give the net returns from goods sold. The cost of goods on hand at the beginning of the fiscal period plus the purchases (Purchases, Dr.), and freight in, gives the total cost of goods purchased. The difference between this and the value of goods returned, plus the discount deducted by us, is the net cost of goods purchased. The net cost of goods sold is the difference between the net cost of goods purchased and the cost of goods on hand at the end of the current fiscal period (Present Inventory). The gross trading profit is the difference between the net returns from sales and the net cost of goods sold. The difference between the total losses and gains is the net gain, each partner being entitled to one-half of this. The net gain, added to the net investment, is the present capital, which must be the same as the difference between the resources and liabilities on the Financial statement. No facts on either statement can be accepted as correct until proved.

FINANCIAL STATEMENT, C. W. KEELAND & CO., APRIL 30, 191

RESOURCES					
Cash,		850	48		
Inventory, April 30th,		3045	94		
Notes Receivable,		645	65		
Accounts Receivable (Due from Customers)	1353.01				
Less 5% Reserve for Bad Debts,	67.66	1285	35		
Real Estate,		1000	00		
Office Equipment,	466.50				
Less depreciation 5%,	23.33	433	17		
Store Fixtures,	204.00				
Less depreciation 5%,	10.20	193	80		
Delivery Equipment,	450.00				
Less depreciation 5%,	22.50	427	50		
Insurance,		45	37		
Sundry Resource Inventories:					
Stamps and Stationery on hand,	20.00				
Due from Borches & Co. for delivering,	80.00	100	00		
Total Resources,				8037	26
LIABILITIES					
Notes Payable,		2114	73		
Accounts Payable (Due Creditors)		2395	82		
Sundry Liability Inventories:					
Rent of warehouse for April	50.00				
Due Webb Livery Co. for board of horses,	70.00	120	00		
C. W. Keeland, personal,		40	00		
A. D. Munson, Personal,		50	00		
Total Liabilities,				4720	55
Present capital of the business,				3316	71
C. W. Keeland's investment,	1500.00				
Add one-half net gain,	158.36				
C. W. Keeland's present capital,		1658	36		
A. D. Munson's investment,	1500.00				
Add one-half net gain,	158.35				
A. D. Munson's present capital,		1658	35		
		3316	71	3316	71

Illustration No. 74. Financial Statement, April 30th.

TRADING, AND PROFIT AND LOSS STATEMENT, C. W. KEELAND & CO., APRIL 30, 191

RETURNS					
Sales,		4436	87		
Less Rebates and Returns,	36.54				
" Sales Discount,	116.27	152	81		
Net returns from merchandise sold,				4284	06
COSTS					
Inventory, Mdse. on hand April 1st,	1121.74				
Add Purchases,	4115.09				
" Freight In,	1241.86	6478	69		
Deduct Rebates and Returns,	109.12				
" Purchases Discount,	46.75	155	87		
Net cost of goods purchased,		6322	82		
Less Inventory, April 30th,		3045	94		
Net cost of goods sold,				3276	88
Gross Trading Profit,				1007	18
OTHER PROFITS					
Interest,		8	17		
Commission,		20	56	28	73
Total profits,				1035	91
EXPENSES					
General Administrative Expense,	453.45				
Selling Expense,	165.75	619	20		
OTHER LOSSES					
Reserve for bad debts,	67.66				
Real Estate Expense and Revenue,	32.34	100	00		
Total losses,				719	20
Net Gain,				316	71
C. W. Keeland invested,				1500	00
A. D. Munson invested,				1500	00
C. W. Keeland, one-half net gain,	158.36				
" " " invested,	1500.00				
C. W. Keeland's present capital,		1658	36		
A. D. Munson, one-half net gain,	158.35				
" " " invested,	1500.00				
A. D. Munson's present capital,		1658	35		
		3316	71	3316	71

Illustration No. 75. Trading, and Profit and Loss Statement, April 30th.

¶ 1. *Financial Statement.* As explained in § 79, this shows all the resources, liabilities and the present capital of each partner. At this time the resources consist of the cash on hand, Personal accounts due the business, Notes Receivable, Inventory, Office Equipment (cost value, less the depreciation), Store Fixtures (cost value, less depreciation), Delivery Equipment (cost value, less depreciation), and sundry resource inventories, as shown by the Sundry Resource Inventories account. It will be necessary to refer to this account in the ledger in order to ascertain the property represented by it. The liabilities consist of Notes Payable, Accounts Payable, Sundry Liability Inventories, and Partners' Personal accounts, arranged in the order mentioned. The student may omit a list of the accounts receivable and payable, using the total only. This is ascertained by adding the amounts due creditors, and those due from customers. Since these are shown on the Trial Balance, and the student retains a copy of this, the teacher will know that the various accounts are correct, because the total is correct. In preparing the Financial statement for a firm engaged in business, the bookkeeper would be required to attach a list of personal accounts to the statement. The omission of these in this statement is to save time.

The difference between the total resources and total liabilities is the present capital of the business. As each partner invests equal amounts and the profits or losses are shared equally, each will be entitled to one-half the present capital. The difference between the total investment and the present capital, shown by the Financial statement, is the net gain for the fiscal period. These facts are shown on the Financial statement as a proof of the Trading, and Profit and Loss statements. Illustration No. 74 shows the correct form of the Financial statement for April 30th. The amounts are different, and there are some additional accounts.

¶ 2. *Trading Statement.* As explained in §§ 78 and 197, the Trading statement shows the gross trading profit. This is ascertained by using the various accounts that affect the cost and sales of merchandise. The total sales are represented by the credit side of the Sales account. If merchandise sold has been returned (debit side of this account), the amount would have to be deducted from the credit side to ascertain the net sales. The cost of goods purchased during the fiscal period is shown by the debit side of the Purchases account, plus the debit side of the Freight In account, less the amount deducted for prompt payment of our obligations. If goods purchased had been returned, the amount would appear on the credit side of the Purchases account and the difference of this account would then show the cost of the goods. If any rebates had been allowed on freight charges, the amount would appear on the credit side of the Freight In account, and the difference of this account would be used. The deductions on the Purchases account would have to be shown on the statement, but the difference of the Freight In account could be used without showing the deductions if desired. The total of the Purchases and Freight In account shows the cost of the goods purchased during the fiscal period. The cost of goods sold is ascertained by deducting the amount of the inventory, which is the present value of salable goods on hand. This result gives the net cost of goods sold. The difference between the net returns (Sales account) from goods sold, and the net cost of the goods sold, is the profit made by purchasing and selling goods, and is termed the "Gross Trading Profit." As explained in §§ 80 and 197, the Trading statement is usually made a part of the Profit and Loss Statement. It is best practice to do this, unless there are a number of accounts representing the dealings with merchandise. The first part of illustration No. 75 shows the correct form of the Trading statement, but contains some accounts not represented April 30th. At this time there is no credit for merchandise returned by us or debit for that returned to us. The student should have no trouble to make his statement from the form given.

¶ 3. *Profit and Loss Statement.* As explained in § 80, the Profit and Loss statement shows all the profits and losses and the net gain of each partner. The gains consist of the gross trading profit, as shown by the Trading statement, which may be made a part of the Profit and Loss statement, or as a separate statement, and any profit or loss accounts that have a credit balance. The losses consist of profit or loss accounts which show a debit balance. The gains are arranged with the gross trading profit first, and other profits afterwards in the order in which the accounts appear on the

Trial Balance. The losses are arranged with the General Administrative Expense account first, and the other loss accounts in the order in which they appear on the Trial Balance.

The difference between the total gains and total losses is the net gain; this added to the investment must give the Present Capital, as shown by the Financial statement. No facts on either the Financial, Trading, or Profit and Loss statements can be accepted as correct until the net gain shown by the Profit and Loss statement proves with the net gain shown by the Financial statement.

§ 203. **Closing the Ledger, April 30th.** As explained in § 84, the object of closing the ledger is to close those accounts that show a profit or loss into the Profit and Loss account, and the balance of this account into the investment account or accounts. To close a profit or loss account means to transfer the balance to another account. The ledger may be closed by the red ink method (§ 84), or a journal entry or entries (§ 200). The journal entry method will be used in this and succeeding sets, as it is considered the best practice by all accountants.

As explained in § 200, it requires two distinct entries to close the ledger—one to close the accounts used in making the Trading statement, and another the accounts used in making the Profit and Loss statement. Since closing an account means to transfer the balance to another account, it is evident that the account with a debit balance must be credited and the account into which it is transferred debited, and the account with a credit balance debited and the account into which it is transferred credited.

¶ 1. *Entry to Close the Accounts Affecting the Trading Statement.* At this time the Purchases and Freight In accounts show a debit balance and the Sales and Purchases Discount accounts a credit balance; hence, the first two must be credited and the other two, debited. As the inventory or present value of merchandise was used in making the Trading statement and reduced the cost of the goods sold, it would be considered as having a credit balance and must be debited in the journal entry. As the accounts are being closed into the Trading account, the first part of the entry requires three debits (Inventory, Sales and Purchases Discount) and one credit, and the second part of the entry one debit and three credits (Purchases, Freight In, and Profit and Loss account). This entry not only closes each account affecting the Trading statement into the Trading account, but closes that account into the Profit and Loss account. The first entry in illustration No. 71 shows the correct form of this entry and the amount. When the amounts are posted to the ledger, the Trading account is not credited with the one amount written on the line with it, but each of the three amounts debited are entered separately, the name of the account being written in the explanation column. In the same way the Trading account is not debited with the amount written on the same line with it, but each of the three amounts credited are entered separately, the name of each account being written in the explanation column. Illustration No. 69 shows the correct form of the Trading account. After the entry to close the accounts used in making the Trading statement has been made and posted, the various accounts will balance and the Profit and Loss account will show a credit, which is the amount of the gross trading profit. Each account is ruled, as shown in illustrations Nos. 50, 51, 52, 53, 54, and 69.

Profit and Loss

191 Apr	30	Gen'l Admin Exp	J 6	474 51	191 Apr	30	Trading a/c	J 6	826 51
		Selling Exp	J 6	164 50					
		C.W. Keeland, Cap	J 6	93 75					
		A.D. Munson, Cap.	J 6	93 75					
				826 51					826 51

Illustration No. 76. Profit and Loss Account.

¶ 2. *Entry to Close the Profit and Loss Account.* There being no profit or loss accounts that show a credit balance, this entry will require only one debit and four credits. The Profit and Loss account is debited for the amount of all the credits, which are the two accounts that show losses, and each partner's one-half ot the net gain. When this entry is posted, the Profit and Loss account is not debited with the amount written on the same line with it, but each of the four amounts credited are entered separately, the name of the accounts being written in the explanation column. The second entry in illustration No. 71 shows the correct form of the journal entry required April 30th, and illustration No. 76 shows the Profit and Loss account after this entry has been posted.

¶3. *Entry to Close the Capital Account.* All the accounts in the ledger used in making the Profit and Loss statement will now balance, and each Partner's Capital account will show his part of the net gain for the fiscal period. The accounts are ruled, as shown in illustrations Nos. 57, 58 and 76. It is not necessary to rule each Partner's Capital account and bring down the present capital, but it is best to do this so that the account will show the present capital at the beginning of the next fiscal period. These accounts are closed, as instructed in § 151, ¶ 10. See illustration No. 47.

¶ 4. *Entry to Close the Sundry Resource Inventories Account.* After the ledger has been closed, it is necessary to make a journal entry closing the Sundry Resource Inventories account and the Sundry Liability Inventories account, that each service account may show the true value at the beginning of the next fiscal period. At this time the Sundry Resource Inventories Account shows two debits—one for the stationery on hand, and the other the amount due from Borches & Co. for delivery service. The first amount affects the General Administrative Expense account, and the second the Selling Expense account. To close this account requires a journal entry of two debits and one credit. Illustration No. 72 shows the correct form. When the debit entry is posted, write in the explanation column of the General Administrative Expense account "Stationery on hand," and in the Selling Ex-Expense account write "Delivery Services." When the credit entry is posted, the one amount is not entered, but both amounts shown in the debit entry, the name of the accounts being written in the explanation column. Illustration No. 67 shows the Sundry Resource Inventories account closed, and illustrations Nos. 57 and 58 show the required entries in the Expense accounts. Rule the account as shown in illustration No. 67.

PROOF SHEET, C. W. KEELAND & CO., APRIL 30, 191

1	C. W. Keeland Capital			1658	36
1	A. D. Munson "			1658	35
2	C. W. Keeland Personal,			.40	00
2	A. D. Munson "			,50	00
	Cash,	850	48		
5	Inventory,	3045	94		
11	Insurance,	45	37		
12	General Administrative Expense,	20	00	50	00
13	Selling Expense,	80	00	70	00
14	Reserve for Bad Debts,			67	66
15	Real Estate,	1000	00		
16	Office Equipment,	466	50		
16	Reserve for Dep. of Office Equipment,			23	33
17	Store Fixtures,	204	00		
17	Reserve for Dep. of Store Fixtures,			10	20
18	Delivery Equipment,	450	00		
18	Reserve for Dep. of Delivery Equipment,			22	50
24	Notes Receivable,	645	65		
25	Notes Payable,			2114	73
	Accounts Receivable,	1353	01		
	Accounts Payable,			2395	82
		8160	95	8160	95

Illustration No. 77. Proof Sheet, April 30th.

¶ 5. *Entry to Close the Sundry Liability Inventories Account.* At this time the Sundry Liability Inventories account shows two credits, one for rent of the warehouse, and the other for livery bill due for board of horses. The first affects the General Administrative Expense account, and the second the Selling Expense account. To close this account requires a journal entry of one debit and two credits. Illustration No. 72 shows the correct form. When the debit entry is posted, the Sundry Liability Inventories account is not debited with the one amount on the line with it, but each amount in the credit column is entered separately, the name of the accounts being written in the explanation column. When the credit entries are posted, in the explanation column of the General Administrative Expense account, write "Rent of warehouse," and in the explanation column of the Selling Expense account, write "Board for horses." When this entry has been posted, the Sundry Liability Inventories account will balance, and is ruled and footed as shown in illustration No. 68.

§ **204. Proof Sheet, April 30th.** As explained in § 90, the object of the Proof Sheet is to prove that the ledger is in balance after all of the accounts that require closing have been closed. It is not as necessary when the ledger is closed by a journal entry as when red ink is used. However, the bookkeeper should always make a Proof Sheet after the ledger is closed, that he may know his ledger is in balance at the beginning of the fiscal period. The Proof Sheet consists of a list of all the open accounts on the ledger, which are the same as those shown on the Financial statement, and the service accounts affected by the Sundry Resource Inventories and Sundry Liability Inventories.

QUESTIONS.

1. Define sundry resource inventories. (§ 193.)
2. Why is it necessary to keep an account with these? (§ 194.)
3. Name the two special debits. (§ 194, ¶¶ 1 and 2.)
4. Name the special credit. (§ 194, ¶ 3.)
5. What does the balance of this account show? (§ 194.)
6. When and how is it closed? (§ 194.)
7. Define Sundry Liabilities Inventory. (§ 195.)
8. Why is it necessary to open special accounts for these? (§ 196.)
9. When is this account opened and closed?
10. Name the special debits. (§ 196, ¶ 1.)
11. Name the special credits. (§ 196, ¶ 2.)
12. Define the Trading statement. (§ 197.)
13. What accounts affect this statement?
14. What is the object of the Trading account? (§ 198.)
15. For what is it debited? (§ 198, ¶¶ 1—5.)
16. For what is it credited? (§ 198, ¶¶ 6—8.)
17. What does the balance of the Trading account show? (§ 198.)
18. How and when is it closed? (§ 198.)
19. Name the four special journal entries usually required at the close of a fiscal period. (§ 199.)
20. Explain why these are necessary. (§ 199.)
21. What is meant by closing the ledger by journal entries? (§ 200.)
22. Describe the two entries usually required. (§ 200, ¶¶ 1—4.)
23. How is the Capital account or accounts closed? (§ 200, ¶ 3.)
24. Describe the method of taking the Trial Balance April 30th. (§ 201.)
25. Describe the method of making the statement at the close of the fiscal period, April 30th. (§ 202.)
26. Describe the method of closing the ledger, April 30th. (§ 203, ¶¶ 1—4.)
27. Describe the Proof Sheet, April 30th. (§ 204.)

JOURNAL ENTRIES—PARTNERSHIP.

EXERCISE No. 66. 1. W. H. Rankin and Chas. O. Watkins form a partnership for the purpose of engaging in the retail shoe business. Mr. Rankin invests his present stock of goods, valued at $2,684.73. Personal accounts due him, $1,274.28, less 2% for bad debts (§ 213); a note due him for $375.60; accumulated interest on this, $3.76; office equipment, cost value, $447.65; depreciation on the same, $44.77 (§ 163, ¶ 4); store fixtures, $650.00; depreciation on the same, $65.00 (§ 165, ¶ 4); cash in the bank to his credit, $1,427.65; he owes personal accounts, $2,176.48; a note for $1,000.00.

Mr. Watkins invests cash, $2,000.00; a note in his favor, $1,500.00; accumulated interest on this note, $27.65.

Debit each account representing the value of property invested by Mr. Rankin; credit each account representing the debts assumed by the partnership, and credit Mr. Rankin's Capital account for the difference. The Accounts Receivable account is debited with the total amount due from customers, and Reserve for Bad Debts account credited for the reserve. The Office Equipment and Store Fixtures accounts are each debited for the cost value of the property and a Reserve for Depreciation account with each is credited for the depreciation. Debit each account, which will represent the value of the property invested by Mr. Watkins, and credit his Capital account for the total.

2. J. B. Andrews drew a ten-day draft for $500.00 on C. W. Bayless in favor of Anderson Bros., and sent it to them to apply on account. Make the journal entry that each party would make on his books.

3. W. E. Drummond and J. S. Martin form a partnership for the purpose of engaging in the retail grocery business. Mr. Drummond invests cash, $1,500.00; a note for $500.00; accumulated interest on this, $4.75; an account due from William Ferguson for $27.89.

Mr. Martin invests cash, $2,000.00; stock of merchandise valued at $861.95; an account due him from C. C. DeArmond for $96.87; store fixtures valued at $500.00; depreciation on the same, $75.00; office equipment valued at $450.00; depreciation on the same, $57.50. Make the required journal entries, as instructed in No. 1.

4. Bought from the Mosley Safe & Lock Company a fireproof safe for $500.00; paid for it by check, $100.00, and four notes for $100.00 each, due in 30, 60, 90 and 100 days, respectively. Make the required journal entries.

5. W. H. Armstrong and C. L. Whittle form a partnership for the purpose of engaging in the retail hardware business. Mr. Armstrong invests cash in the bank, $387.62; merchandise in stock, $2438.26; personal accounts due him, $972.40; reserve for bad debts, 2%; office equipment, cost value, $350.00; depreciation on the same, $35.00; store fixtures, $475.00; depreciation on the same, $47.50; notes receivable, $675.27; accumulated interest on the same, $36.20; the partnership assumes personal accounts which he owes, $942.76; a note due the First National Bank for $1,000.00; accumulated interest on this, $20.00. Mr. Whittle invests cash, $1,427.86; merchandise in stock, $1,360.48; personal accounts due him, $843.65; reserve for bad debts, 2%; delivery equipment, cost value, $850.00; depreciation on the same, $85.00; notes receivable due him, $1,265.74; accumulated interest on the same, $82.75; he owes personal accounts, $365.40; a note due the City National Bank, $500.00. Make the required journal entries, as explained in No. 1.

6. Accepted a ten-day draft drawn by the American Tobacco Company for $968.92 in part payment of an invoice due, less 3% discount. Make the required journal entry. (§ 188.)

7. Purchased from the Hall Safe & Lock Company a new fire and burglar-proof safe for $600.00; paid for the same by exchanging a second-hand safe, which cost us $200.00; cash, $250.00, and two notes for $100.00, each due in 60 and 90 days, respectively. Make the required journal entry.

8. C. W. Brown owes us $927.82, which is subject to 3% if paid in ten days. He agreed to accept our ten-day draft in payment of same, less discount. Make the journal entry as though the draft had been accepted.

9. C. B. Dodson & Co. drew a thirty-day draft for $327.46 on A. L. Young and sent it to Jones Bros. to apply on account. Make the journal entry each of the parties would make on his books, assuming that the draft was accepted when presented.

10. July 1, 191.., C. H. Jordan, A. L. Peer and W. D. Dunsmore form a partnership for the purpose of engaging in the retail drug business. Mr. Jordan invests cash, $1,000.00; a note for $627.65, dated May 5th, and due in four months, with interest from date; a note for $522.75, dated March 6th, and due in six months, with interest from date, with a credit of $105.87, paid May 27th; an account due him from W. W. Watson for $256.37. Mr. Peer invests cash, $1,500.00; a note for $1,250.00, dated March 3d, and due in eight months, with interest from date, on which there is a payment of $300.00, dated May 6th. Mr. Dunsmore invests the resources and liabilities of his present business, which are as follows:

Cash, in the bank, $272.80; accounts due him, $546.50; depreciation for bad debts, 3%; office equipment, cost value, $250.00; reserve for depreciation, $15.00; store fixtures, $360.00; depreciation, $18.00; notes receivable, $562.75; merchandise in stock, $739.80.

He owes $462.75 to persons from whom he has purchased merchandise on time, and the City National Bank a note for $450.00. Make the required journal entries, as explained in No. 1.

11. Accepted Adcock & Jordan's ten-day draft in payment of an invoice for $927.89, less 3%. Make the required journal entry.

12. The bookkeeper for A. D. Upland & Co., engaged in the retail lumber business, used the following facts for making his statements April 30th: Robert Clark, Capital, Dr. $869.50, Cr. $5,000.00; A. D. Upland, Capital, Cr. $5,000.00; A. D. Upland, Personal, Dr. $86.42; Inventory, Dr. $1,865.72; Purchases, Dr. $6,281.75, Cr. $367.82; Freight In, Dr. $1,265.74; Sales Discount, Dr. $329.46; Sales, Dr. $427.62, Cr. $8,197.98; Purchases Discount, Cr. $299.78; Delivery Equipment, Dr. $782.95; Reserve for Depreciation of Delivery Equipment, Cr. $78.30; Office Equipment, Dr. $255.75; Reserve for Depreciation of Office Equipment, Cr. $25.58; Notes Payable, Cr. $1,500.00; Interest, Dr. $25.69, Cr. $19.81; Notes Receivable, Dr. $691.87; Real Estate, Dr. $3,500.00; Real Estate Expense and Revenue, Dr. $262.75; General Administrative Expense, Dr. $586.27; Selling Expense, Dr. $369.44; Accounts Receivable, Dr. $2,561.14; Reserve for Bad Debts, Cr. $51.22; Insurance, Dr. $75.85; Accounts Payable, Cr. $1,692.92; Cash Balance on hand, Dr. $1,995.49.

The present value of lumber in stock is $2,137.98. Make the Trading, Financial, and Profit and Loss statements.

MAY

A continuation of the April business introducing the use of the accounts explained in April—Credit Bills; Bills of Lading; Telegrams; Certified Checks; Instructions for Detecting Errors in the Trial Balance; Collecting Notes and Drafts; Correcting Errors; Exchange, and Information Relative to Admitting a Partner.

§ 205. **Credit Bill.** A credit bill is a statement sent to the buyer by the seller, showing that his account has been credited for the value of the item or items described therein. It is the same as a receipt, except more definite information is given. A credit bill may be sent for cash remittances, discrepancies in goods shipped, errors in extensions of bills, or any other facts that require credit. The form is similar to that of an invoice or bill. The credit bill should be printed in a different color ink from that of a bill, to distinguish between them. Illustration No. 78 shows a popular form of the credit bill.

CREDIT BILL

C. W. KEELAND & CO.
DEALERS IN
HAY, GRAIN, FEED
AND COAL

May 7, 191
W. H. Ingram,
1873 Elm St.,
Pittsburgh.

WE CREDIT YOUR ACCOUNT AS FOLLOWS:

	3500# No. 2 Corn (per bu) 2¢				1 25
	Error in bill charged on				
	the 5th.				

Illustration No. 78. Credit Bill.

§ 206. **Bill of Lading.** When merchandise is shipped by freight, the shipper requires a receipt from the railroad company for the shipment. This receipt is a bill of lading. Bills of lading are made in triplicate and supplied to the shipper by the railroad company. Some shippers prepare their own form and use this instead of the one supplied by the railroad. Practically all of the railroad companies do business in more than one state, hence are under the jurisdiction of the Interstate Commerce Commission. Recently the Commission made a ruling that bills of lading should be of a standard size and contain standard regulations. This was to avoid the numerous forms in use, each railroad company having its own form. This ruling does not prohibit the shipper from preparing his own form, provided it complies with the requirements imposed by the Commission.

Bills of lading are made in triplicate, that the railroad, shipper, and consignee may each have a copy. By using two sheets of carbon paper, the same facts can be written on each form with only

For use in connection with the Standard form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

3

..................Railroad Company Shippers No...........

THIS MEMORANDUM is an acknowledgment that a bill of lading has been issued and is not the Original Bill of Lading nor a copy or duplicate, covering the property named herein and is intended solely for filing or record. Agents No...........

RECEIVED, subject to the classifications and tariffs in effect on the date of the receipt by the carrier of the property described in the Original Bill of Lading.

at 208 Commerce St.......................191......, From **C. W. KEELAND & CO.,**

Illustration No. 79. Third Form of Bill of Lading

For use in connection with the Standard form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

2

..................Railroad Company Shippers No...........

THIS SHIPPING ORDER must be legibly filled in, in Ink, in Indelible Pencil, or in Carbon and retained by the Agent. Agents No...........

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Shipping Order.

at 208 Commerce St.......................191......, From **C. W. KEELAND & CO.,**

Illustration No. 80. Second Form of Bill of Lading.

Uniform Bill of Lading--Standard form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

1

B. & O. S. W. Railroad Company Shippers No...........

STRAIGHT BILL OF LADING--ORIGINAL--NOT NEGOTIABLE. Agents No...........

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading.

at 208 Commerce St. May 5, 191......, From **C. W. KEELAND & CO.,**

The property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof), and which are agreed to by the shipper and accepted for himself and his assigns.

The rate of Freight from.................to Pittsburgh ....is in cents per 100 Lbs.

IF...Times 1st	IF 1st Class	IF 2d Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special per.........	IF Special per.........

(Mail address—Not for purposes of Delivery.)

Consigned to W. H. Ingram 1873 Elm St.

Destination, Pittsburgh State of Penna. County of Allegheny

Route, Your line Car Initial............Car No............

No. Packages	Description of Articles and Special Marks	Weight (Sub. to Cor.)	Class or Rate	Check Column
60	scks. #1 Corn	6082#		
60	" #2 Corn	6114#		
60	" Oats	3849#		

If charges are to be prepaid, write or stamp here, "To be prepaid."

Received $........................ to apply in prepayment of the charges on the property described hereon.

.... Agent or Cashier.

Per........................ (The signature here acknowledges only the amount prepaid.)

Charges Advanced:

$........................

C. W. KEELAND & CO., Shipper, Per B .... Agent, Per..........

(This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

Illustration No. 81. First or Original Form of Bill of Lading.

NOTE—That part of illustrations Nos. 79 and 80, forms 2 and 3, not shown, is the same as the lower part of illustration No. 81, form 1.

one writing. Bills of lading are bound in book form or pads and arranged in sets of three. The Commission designated the color of paper to be used for each form, but left this optional with the railroad company or shipper as to whether these colors, or white should be used. The white has proven the most popular. Illustrations Nos. 79, 80 and 81 show the three forms required by the Interstate Commerce Commission. The correct size required by the Commission is 8½ inches wide and 7 inches long, or 8½ inches wide and 11 inches long.

§ **207. Telegram.** A telegram is a communication or message sent by a telegraph company. There are two leading companies in the United States, the Postal and Western Union. While the government maintains mail service to all parts of the country, yet it does not provide as prompt service as is required in modern business. The telegraph companies are organized for the purpose of rendering quick service in communication. The capital invested is used to provide the necessary equipment, which includes poles, wires, batteries, fixtures, etc.; to maintain offices and pay employees for their services. The profit is derived from receiving more for transmitting a message than the cost of the message. The charges for a message are based on the distance and the number of words in excess of ten. If the rate for sending a telegram from one point to another is fifty cents, it will cost just as much to send ten words as any number of words less than ten. A fixed charge is made for each word in excess of ten.

There are three classes of telegrams: the regular day message, day letter and night letter.

¶ 1. *The Regular Day Message.* The regular day message consists of ten or more words, unless the sender uses less words than ten, and is sent as soon as received or in regular order. It is delivered at its destination as soon as received or in regular order. The charge is based on ten words, as explained.

POSTAL TELEGRAPH - COMMERCIAL CABLES

THOMAS W. BAKER, PRESIDENT.

RECEIVED AT DELIVERY NO.

TELEGRAM

The Postal Telegraph-Cable Company (Incorporated) transmits and delivers this message subject to the terms and conditions printed on the back of this blank.

May 12, 191__

Short Bros.

Cleveland.

Number one corn sixty seven cents bushel f. o. b. cars here.

C. W. KEELAND & CO.

Illustration No. 82. Regular Day Message of Ten Words.

¶ 2. *Day Letter.* The day letter consists of a message of fifty words, and is accepted by the telegraph company at a reduced price, because it is not to be sent until all regular day messages have been sent. It is delivered at destination after the regular day messages have been delivered. The regular messages have preference over the day letters and are always delivered first. If, at the time the day letter is received, there are no regular messages to be sent, it will be sent as soon as received; if there are no regular day messages to be delivered at the destination, it will be delivered as soon as received. The charges on the day letter are based on a message of fifty words. If less words are included in the message, the cost is the same. If more words, a fixed charge is made for each additional word.

¶ 3. *Night Letter.* A night letter is a message of fifty words and is to be sent at night. The rate is the same as ten words sent by the regular day message. The message is received by the company with the understanding, that it is to be sent sometime during the night and delivered early the next morning, either by a messenger of the company or by mail. The charge is based on fifty words, the same as the day letter. If additional words are used, a fixed charge is made for each word.

NIGHT LETTER

THE WESTERN UNION TELEGRAPH COMPANY

INCORPORATED

25,000 OFFICES IN AMERICA CABLE SERVICE TO ALL THE WORLD

ROBERT C. CLOWRY, PRESIDENT BELVIDERE BROOKS, GENERAL MANAGER

RECEIVER'S No.	TIME FILED	CHECK

SEND the following NIGHT LETTER subject to the terms on back hereof which are hereby agreed to

May 14, 191

Anderson, Peck & Fowler,

Clinton. N. Y.

Ship, at once, by fast freight one car number one Corn to Short Brothers, Cleveland, and one car number one Hay to W. H. Ingram, Pittsburg. Send bill of lading showing freight rate to consignee. Send invoice to us and charge to our account. Advise freight rate.

C. W. KEELAND & CO.

Illustration No. 83. Night Letter.

NOTE.—A message of ten words sent at night and delivered under the same conditions as the night letter, is accepted at a less rate than the regular day message. These are not very popular since the inauguration of the night letter, because there is very little difference in the charge and five times the number of words may be sent.

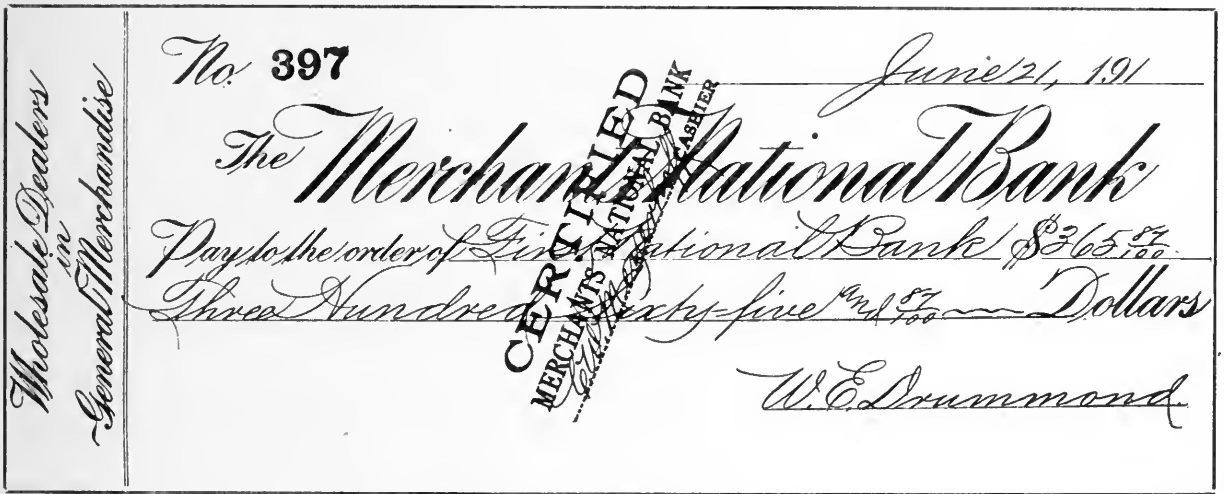
§ 208. **Certified Check.** A certified check is one which the bank has guaranteed. An ordinary check is evidence that the party who drew it has the amount of money on deposit in the bank on which it is drawn, but the one to whom it is given has no means of knowing that this fact is correct, except by presenting it for payment. That the person to whom the check is given may be assured that it is all right, the maker will present it to the teller of the bank and have him certify that he, the maker, has on deposit a sufficient amount to pay the check. As a general rule, checks are not certified, being accepted by the parties to whom they are given for the same amount of cash, but sometimes it is the best policy not to accept a check unless it is certified.

If a person who is not acquainted with anyone in the bank wishes to open an account, he should provide himself with a letter of introduction from his former banker and a certified check for the amount which he wishes to deposit, unless he opens his account with cash or currency.

If a note is payable at a bank other than the one at which the maker does business, he should have his check certified when he pays the note. If it is certified, the bank holding the note will know that his check will be honored when presented.

If the person in whose favor an individual check is made lives in some other city, it is good policy to have the check certified, especially if the check is not sent in the regular order of business. The person to whom the check is made payable may have it certified if desired. A certified check is as good as the credit of the bank. If the bank should become insolvent, the holder of the certified check could collect only the same as other creditors. When a check is certified the amount is charged to the depositor the same as if it had been paid. It is necessary for the bank to do this, since a certified check means that the depositor has that amount of money on deposit and that the bank will pay the check when presented. Unless the check was charged to the depositor, he might withdraw his funds and when the certified check was presented there would not be sufficient funds to meet it, in which case, the bank would have to make up the difference. It is very poor policy for a bank to certify a check when the depositor has not sufficient funds on deposit, and in some cases the officials of the bank will be held criminally responsible for doing this.

Checks are certified by writing across the face, "Good, when properly endorsed, per ...." Checks are usually certified by the teller, but may be certified by any other official of the bank. Illustration No. 84 shows the correct form of a certified check.


Wholesale Dealers in General Merchandise

No. 397 June 21, 191

The Merchants National Bank

Pay to the order of First National Bank $365 87/100

Three Hundred Sixty-five and 87/100 Dollars

W. E. Drummond

CERTIFIED
MERCHANTS NATIONAL BANK
CASHIER

Illustration No. 84. A Certified Check.

§ 209. Collecting Notes and Drafts. A note or draft may be made payable at the office of the person in whose favor it is made, or at some bank. It is customary in business to send notes and drafts to a bank for collection, as the average business man will meet an obligation at a bank more promptly than at the office of the holder. If the maker of a note or drawee of a draft lives in a different city from that of the holder, the paper may be left at the bank at which the holder does business, or sent to a bank in the city in which the maker or drawee resides. As a general rule, banks will collect papers of this kind for customers without charge, and many business men use their banks for this purpose. Better results are obtained when the paper is sent to some bank in the city where the person who is to pay it resides, and when possible, to the bank at which he does business. This avoids a waste of time and insures prompt attention, as the bank collecting the paper will make a charge for its services; hence, give it more prompt attention than the bank at which the holder does business, since they make no charge. It is not necessary to send a note or draft to the particular bank at which it is made payable, as the holder has the right to retain and collect it himself or send it to any bank or collection agency that he may designate.

When a note or draft is sent to a bank or collection agency for collection, it should be endorsed to the person or bank to whom it is sent for collection, otherwise it might be used as an asset of the person who is to collect it. The usual form of endorsement is, "Pay to the order of First National

Bank for collection and remittance, C. W. Keeland & Co." This endorsement indicates that the paper belongs to C. W. Keeland & Co., and has been sent to the First National Bank for collection and remittance. If the paper has been made payable at the bank where the firm does business, the word "Credit" would have to be substituted for "Remittance." A paper endorsed in this way can not be used by the one to whom it is sent for collection, but must be collected or returned to the holder. If the words "For collection and remittance" are omitted and the person to whom it was sent for collection wishes to use the paper for his own benefit, he might do so, as the one to whom he transferred it would have no means of knowing that it was not his by right of purchase.

RULES FOR TAKING A TRIAL BALANCE AND FOR DETECTING ERRORS WHEN IT DOES NOT BALANCE.

§ **210. The Student,** as well as the bookkeeper, soon learns to dread the Trial Balance, the reason being that it is *this* which tests his accuracy. As a general rule, the bookkeeper or student who begins with the expectation of having trouble in getting his Trial Balance to balance, is sure not to be disappointed. It requires confidence in one's ability to succeed in anything, and the bookkeeper who has confidence in his ability to keep a set of books and take a Trial Balance will seldom have trouble in getting it to balance. It requires only a few moments' time to prove the correctness of each entry, posting, addition or subtraction. The trouble with the average student is that he does not appreciate the importance of this and trusts too much to luck, hence spends more time in finding his errors than he does in recording the transactions. The old adage, "Be sure you are right, and then go ahead," is very applicable to the work of the bookkeeper, and the student who can realize the importance of this will never have trouble with any of his work, and especially the Trial Balance.

Since many mistakes are made in taking the Trial Balance, a few rules are given for this. The student should accustom himself to observe these, being careful to follow them in the order given.

¶ 1. *Verify the Correctness of each Entry Posted,* and addition or subtraction at the time the work is done.

¶ 2. *After the Checking has been Completed,* glance over the books of original entry and the ledger tracing any posting that may not be checked. If the check marks are all on the same vertical line in the books of original entry and the ledger, it will facilitate detecting errors.

¶ 3. *Do Not Accept One Addition* of the sales book and purchases book, as errors are very apt to be made here. If the principles outlined in No. 1 have been followed, the addition of each page will have been proved as it is added. Unless each entry in the journal, which affects more than one debit or credit, is proved by footing with pencil, it is best to add each page in the journal and prove that the total debits equal the total credits.

¶ 4. *After all the Postings have been Checked,* the accounts in the ledger footed, and the difference of the personal accounts entered, begin at the beginning of the ledger and go over all of the work again. Do not take off the Trial Balance without doing this, as you are very apt to make errors in the addition or subtraction.

¶ 5. *After the Accounts have been Transferred* to the Trial Balance, check the amounts with the ledger. This will avoid possible errors in entering the amounts from the ledger.

¶ 6. *Verify the Addition of Each Side* of the Trial Balance as it is added. If you add the credit side first, then verify the addition of this side before adding the debit side. It might be possible to make a corresponding error in adding each side, and thus have a Trial Balance which, on its face, was in balance, but in reality was out of balance. This would mean trouble with the next Trial Balance.

If the student follows the above instructions in taking each Trial Balance, he will very seldom have occasion to refer to the following information relative to detecting errors in it. If it does not balance, and all of the rules outlined above have been applied, note the following:

¶ 7. *Ascertain the Amount of the Error,* then look over the Trial Balance, ledger and books of

original entry to see that there is an amount equal to this, or one-half of it. If there is an amount equal to the error, check the posting to see that it is correct. If an amount is half of the error, and posted to the wrong side of an account, it will make the same difference as the amount of the error.

¶ 8. *If the Amount of the Error is Divisible by 9*, it is possible that the error is caused by transposed figures. Unless the error is divisible by 9, it could not be caused by a transposition. If the student does not understand how the transposed figures affect the Trial Balance, he will note the following:

Any number composed of two figures, the difference of which is the same as the result of dividing the error by 9, when transposed will give the amount of the error.

Example: Suppose the Trial Balance is out 45c; divide this by 9, and the result is 5. Any number composed of two figures, the difference of which is 5, when transposed will cause an error of 45c; the difference between 0 and 5 is 5. 05 posted as 50 makes an error of 45c; the difference between 1 and 6 is 5; 16 posted as 61 makes an error of 45c, or 61 posted as 16 makes the same error. In the same way 27, 38, 49, 50, 61, 72, 83 or 94, when transposed will make an error of 45c; thus to find this error of 45c, you will trace the posting of any of these amounts and see that they have not been transposed. The same principle applies with any other error divisible by 9.

¶ 9. *Again Check the Additions and Subtractions* in the ledger. Inspect each account that has been ruled and assure yourself that it balances. Many times in ruling, the bookkeeper will make a mistake and include above the ruling some amount that does not balance. See that pencil footings which include amounts above and below the ruling, have been erased. It often happens that an account has been footed to take a Trial Balance, and during the succeeding month some payment is made that balances the account at a point above the pencil figures; unless these pencil figures are erased at the time the account is ruled, they are apt to be used in taking the next Trial Balance.

¶ 10. *Check the Amounts Entered* on the Trial Balance with the ledger accounts. Always use check marks to indicate checking, as there is little use in checking unless this is done.

¶ 11. *Verify the Total of the Sales Book*, purchases book, and debit and credit columns of the journal.

¶ 12. *Unless the Pass Book has been written up* by the bank, and the balance verified with the cash balance and balance shown on the check stub, verify your cash balance. The fact that the cash proves is not absolute evidence that there is not an error. This is especially true, if your Trial Balance is off one cent, ten cents, one dollar, ten dollars, one hundred dollars, etc.

¶ 13. *Check all the Postings again* and indicate this by check marks on a different vertical line from that used with the previous checkings.

The above instructions are given in the order of their importance and should be followed in regular order. The error may be discovered before it is necessary to use all of them. The average student is apt to become discouraged before he has followed each one of these instructions and wishes to appeal to the teacher for assistance. If he can but realize that the error is in his work and should be discovered by him, he will exhaust every effort to locate it before asking for assistance from the teacher.

If an adding machine is used in connection with the school work, it is suggested that the student be permitted to use this in checking his work. However, he should not be allowed to depend upon the adding machine for the accuracy of his results. No matter how many adding machines may be used in an office, it is necessary for the bookkeeper to know how to add and be skilled in this, and the student can not get too much practice in work of this kind in the schoolroom. The use of the adding machine is left to the discretion of the teacher, but he should never permit its use by a student who is inaccurate in adding.

To the Student. *Do not "Stuff" a Trial Balance.* This is as foolish as stealing money, for you are just as sure to get caught. No one ever lost anything in being honest, and this is one of the most dishonest things of which the bookkeeper can be guilty.

§ **211. How to Correct Errors.** The place and nature of an error largely determines the method of correction. Errors in books of original entry are corrected in an entirely different manner from those in books of complete entry, or errors in business papers. For reference the following information is given:

¶ 1. *Errors in Books of Original Entry.* When the correction is to be made on a book of original entry, an eraser should not be used. In case it is necessary to use the book as evidence in litigation, the bookkeeper might have some trouble in convincing the jury that the entries are legal. The best method of correcting an error in a book of original entry is to draw a single red line through the amount only and write the correct amount above it. If an entire entry is wrong, draw red lines through all the amounts, placing a check mark in the folio column at the left and make the correct entry. Never draw red lines through the name of an account or explanation, as this is not necessary, and certainly does not add to the appearance of the books.

¶ 2. *Errors in the Ledger, or Book of Complete Entry.* Entries in this book are recorded in the book of original entry, hence the correctness of an amount written over an erasure can be verified. For this reason errors in the ledger may be erased. A knife makes the best eraser and should be used in preference to one made of rubber. If the error is discovered before the ink is dry, blot it before erasing, otherwise the result will be a blur. If the nature of an error is such that it is best to make a journal entry correcting it, this may be done, in which case full explanation should be given, so that the auditor will understand the entry. If an error has been made in the book of original entry and is not discovered until after it has been posted, it must be corrected in both the ledger and book of original entry. The auditor will verify the original entry with that in the ledger and the bookkeeper must see that the amounts are the same.

¶ 3. *Correcting Errors in Business Papers.* When an error is made in making out a business paper, the best way to correct it is to destroy the paper and make a new one. No business forms should be allowed to go out unless they are absolutely correct, both in regard to form and amount. While the correction of an error might be permitted in invoices, account of sales, shipping invoices, etc., they should never be permitted in a paper which involves a contract. This refers to checks, notes, receipts, etc. All of these are subject to disputes, and it may be necessary to use the original paper as evidence in litigation, in which case errors will always strengthen the case of the plaintiff.

§ **212. Exchange.** Exchange (§ 100, ¶ 2) is a check or sight draft drawn by one bank upon another bank situated in some other city. It is really a check drawn by a bank on another bank with which it has money deposited. Exchange takes its name from that of the city in which the bank that is to pay the check or draft is situated. Those payable by a bank in New York City are termed "New York Exchange;" those payable by a bank in Chicago, "Chicago Exchange;" those payable by a bank in New Orleans, "New Orleans Exchange," etc. When a bank on which the check or draft is drawn is in the same country it is designated as "Domestic Exchange;" when it is in a different country, "Foreign Exchange." Domestic Exchange is represented by only one draft; Foreign Exchange is usually represented by three drafts, each being sent by a separate route, the one being received first being honored and the others destroyed.

The custom of issuing exchange originated in New York City. This city is the recognized commercial center of the United States, and consequently every city and town throughout the United States is more or less dependent upon New York City for supplies. There are no cities, and very few towns, in the United States in which the merchants do not purchase more or less goods from New York City. The merchants who buy these goods must pay for them, This was formerly done by sending a check payable on their local bank. These checks were deposited in the various banks in New York City by the merchants or manufacturers who received them. It can be easily seen that this worked a great hardship on the banks of New York, as they were compelled to do without the use of their money while these checks, payable at banks in all parts of the United States, were being collected, since the merchant or manufacturer who deposited the check regarded it as cash. If the merchants and manufacturers in New York City had purchased commodities from different parts

of the United States for the same amount, as the merchants in the various parts were purchasing from New York, the New York merchants could very easily have effected settlement with the other banks; but since this is not the case, they were compelled to wait until the checks could be sent to the banks on which they were drawn and money in payment for same returned by express. To avoid having to carry so much paper for which they were receiving no compensation, the banks in New York City entered into an agreement that they would not accept, as cash, any check payable at a bank situated outside of the city, and should checks of this description be presented for deposit, they would charge a small amount for collecting the same, this amount being sufficient to cover the expense of collecting and interest on the money until it was collected. This in turn worked a great hardship on the merchants and manufacturers in New York City, they being compelled to pay collection charges on all checks received from their customers. That the amount paid for collection charges might be distributed, the bankers in New York City suggested that the various banks situated throughout the country keep on deposit amounts on which they could issue checks in exchange for those of their customers; thus, if a merchant in Omaha, Nebraska, wishes to remit to a firm in New York City, instead of sending his check, he would take it to his bank and exchange it for a check payable on some bank in New York City. When this check is received by the firm to whom it is sent, it is deposited in the bank without charges, as it is payable in the city. Should the bank in Omaha charge for issuing the exchange (Check on New York), it would be only a small amount, hence scarcely felt by the merchant who paid it, while to the firm in New York which is receiving hundreds of checks from business men throughout the United States, the payment of collection charges would mean a very heavy expense. Some banks do not charge their customers for issuing exchange, but as a general rule a charge of about one-eighth of one per cent is made. This system worked out by the New York banks has been adopted by the banks in all large cities, and has proved very beneficial to the banks and merchants in those cities.

The person who keeps no regular bank account and wishes to send money to a distance can take his money to any bank and exchange it for a check payable on a bank in the city to which his remittance is to be sent. If the remittance is to be sent to a small town, the exchange would be made payable on a bank in one of the large cities near this. Checks or drafts drawn on New York banks are always acceptable, because practically every bank in the United States keeps an account with some bank in New York City, hence is always willing to receive any paper that will permit them to send funds to New York City without expense. There are other reasons why the banks in smaller cities keep money on deposit in the banks in the larger cities, which will be explained in the subject of Banking.

RESERVE FOR BAD DEBTS ACCOUNT.

§ 213. **The Object of this Account** is to show the reserve set aside for a possible loss on account of bad debts, and the amount of bad debts charged off. Any person or firm that extends credit must expect to lose some of the amounts charged to customers. No matter how careful the credit man may be in extending credit, he is almost sure to permit some one to purchase property on time who will fail to make payment. Since the bookkeeper can not know the account or accounts that will prove worthless, it is necessary to carry a negative account (§ 19) to show the estimated amount that will not be collected. Usually a certain per cent of the amount due from customers (Accounts Receivable) is considered uncollectible, and at the end of the fiscal period the Reserve for Bad Debts account is credited with this, and the Profit and Loss, or Surplus account debited. The use of this account permits the losses, on accounts created during each fiscal period, to be shown in that period.

Debit Reserve for Bad Debts Account:

¶ 1. With the amount due from a customer that can not be collected, the entry being made at the time the owners decide the account is worthless.

Credit Reserve for Bad Debts Account:

¶ 2. At the end of each fiscal period for that per cent of the accounts receivable that the owners have decided will not be collected.

¶ 3. *This being a Negative Account* (§ 19), the balance is not considered by itself, but in connection with the account which it represents. It is used in making the Financial statement, being deducted from the amount due from customers (Accounts Receivable). The credit side should always be the larger. If at any time the debit side is the larger, an entry should be made for an additional per cent, because it is evident that the estimated per cent has not been sufficient to cover the loss on worthless accounts.

¶ 4. *To Close the Reserve for Bad Debts Account.* This account is not closed unless it is desired to transfer the balance to a new page or bring it down on the same page. The difference is entered in red ink, the account ruled with single and double red lines, and the footings entered in black ink. If the balance is transferred to a new page this page should be shown in the red ink entry; if it is brought down on the same page, check marks are placed in the L. F. column in each place.

NOTE.—Some accountants do not use this account, but charge each worthless account to the Profit and Loss, or Surplus account at the time it is deemed worthless. However, it is best practice to keep the account, because it permits each fiscal period to show the actual loss on worthless accounts created in that period.

§ **214. Admitting a Partner.** When a partner is admitted to a going concern (one actively engaged in business), it is usually necessary to close the books and ascertain the present value of the business. By special agreement with the incoming partner this might be omitted, but it is not the best policy, as the new partner should know the present condition of the business. The value of the fixed investments, accounts due the business, notes due the business, merchandise in stock, and other property must be agreed upon by the present owners and the partner who is to be admitted. The bookkeeper makes his entries and statements from these facts, but has nothing to do with obtaining them.

At the close of May, the firm of C. W. Keeland & Co. have agreed to admit Chas. A. Howell as an equal partner in the business. The facts concerning the present value of the property belonging to the business are supplied to the bookkeeper, and it is his duty to make the proper journal entries for depreciation, insurance, etc., take a Trial Balance, make the Financial, Trading, and Profit and Loss statements and close the ledger. No detailed information is given relative to the statements required at this time, as these have been fully explained and illustrated in the preceding work, and the student is referred to that information.

QUESTIONS.

1. Define a Credit Bill. (§ 205.)
2. Define a Bill of Lading. (§ 206.)
3. Why are they made in triplicate?
4. How are three copies made at once.
5. What is the Interstate Commerce Commission?
6. For what is a credit bill rendered?
7. Why are credit bills usually printed a different color from the regular bills?
8. Define a Telegram. (§ 207.)
9. Why are telegrams used?
10. How do telegraph companies make money?
11. Name the two principal companies.
12. Define a regular message.
13. On what number of words are the charges based?
14. Define a day letter.
15. On what are the charges based?
16. Define a night letter.
17. On what number of words are the charges based?
18. Define a certified check and give three conditions under which it would be best to have a check certified. (§ 208.)
19. Who has the check certified?
20. By whom is it certified?
21. Describe the best method of collecting notes and drafts. (§ 209.)
22. How are errors corrected in books of original entry? (§ 211, ¶ 1.)
23. How are errors corrected in books of complete entry? (§ 211, ¶ 2.)
24. Define Exchange. (§ 212.)
25. Give its origin.
26. Name some of the advantages.
27. Define the Reserve for Bad Debts account.
28. Why is it best to close the books when admitting a new partner (§ 214.)

EXERCISES IN JOURNAL ENTRIES AND STATEMENTS.

EXERCISE No. 67. 1. July 27th. We owe Allen & Davis $907.63, which is for an invoice purchased July 20th, terms, 3/10—n/30. We checked the goods when they were received and found a shortage amounting to $38.49. We sent them a check for the amount due. Make the required cash book entry. The amount due them is the face of the invoice, less the amount of shortage and discount.

2. April 5. Allison & Foust owe Monroe & Flenniken $585.25, which is for an invoice purchased March 6th, terms, 3/30—n/60. They settle this by transferring a note signed by L. C. Jordan for $426.41, dated February 5th, and due in sixty days, and their check for the balance. Monroe & Flenniken allow the discount, but deduct interest at 6% for the remaining time of the note. Make the required journal entry for Allison & Foust. In calculating the interest, use twenty-eight days in February.

3. January 1st. L. B. Audigier, M. B. Griffin and C. B. Carter form a partnership for the purpose of engaging in the real estate business. Each partner is to receive interest on the amount invested and be charged with interest on amounts withdrawn. At the end of the year the profit is to be shared in proportion to the net investment of each partner. January 1st, each invests $3,000.00. January 28th, Audigier withdraws $500.00; February 6th, Griffin invests $1,200.00; February 24th, Carter invests $1,500.00; March 1st, Audigier invests $2,500.00; March 8th, Griffin withdrew $1,500.00; March 12th, Carter withdrew $1,265.28; March 16th, Griffin invests $1,582.75; March 31st, Audigier withdrew $827.40; April 15th, the firm accepts real estate belonging to Audigier valued at $1,182.65; April 22d, Griffin withdrew $365.40; April 30th, Carter withdrew $809.11; June 1st, Griffin invests $1,122.60; June 27th, Carter invests $2,265.91; July 1st, Audigier withdrew $500.00; August 1st, Griffin withdrew $1,342.86; August 16th, Audigier invests $1,598.76; August 21st, Griffin invests $1,800.00; September 1st, Carter invests $2,500.00; September 29th, Carter withdrew $1,500.00; October 5th, Griffin withdrew $850.00; October 31st, Audigier withdrew $1,000.00; November 5th, Griffin invests $1,200.00; November 9th, Carter invests $1,000.00; November 22d, Audigier invests $1,250.00; December 1st, Carter withdrew $250.00. At the close of the fiscal period, December 31st, the Financial, and Profit and Loss statements show a gain of $5,627.82. Open an account with each partner; give him credit for each investment and interest on the same, and charge him with each withdrawal and interest on the same. Interest is calculated from the date of the entry to the close of the year; rate 6%. Use actual number of days in interest calculations (Use 28 days in February), except when the time is one year or more. Open an account with Interest and debit and credit this as the partners are credited and debited. When the final results have been obtained, deduct the net amount of interest from the profit, and give each partner credit for his proportionate part of this as per agreement. Close the Partners' Capital Accounts.

4. September 19th. J. B. Monday owes Robertson & Owens $2,567.85, which is for an invoice purchased September 10th, terms 3/10—n/60. He settles this as follows: A note which he holds against Robertson & Owens, which is due today without interest, for $526.49, a check for $500.00, and his 30-day note for such an amount that, when discounted, the net proceeds will pay the balance due on this bill, less discount. Make the required entries for each.

5. January 22d. A. R. Morrow owes Jennings Bros. $36,265. which is for an invoice purchased December 23d, terms, 3/30—n/60. C. H. Adkins owes A. R. Morrow an account that is due, the amount of which is more than the amount due Jennings Bros. Adkins agrees to accept a three-day draft for the amount, not to exceed $360.00, and Jennings Bros. agree to allow credit for the draft accepted by Adkins. The bookkeeper for Mr. Morrow draws a draft on Adkins for the amount due Jennings Bros., less discount, and sends it to Jennings Bros. for credit. Make the journal entry that each party would make on his books, assuming that Adkins accepts the draft when presented.

6. May 12th. We owe the National Biscuit Co. $1,386.45, which is for an invoice purchased May 3d, terms, 4/10—n/30. We pay them $500.00 on account and they allow us the discount. Make the required cash book entry.

7. June 6th. Darling Bros. owe D. A. Miller $352.65, which is for an invoice purchased May 10th, terms, 3/30—n/60. S. T. Hines owes Darling Bros., and agrees to accept a ten-day draft for $200.00, to apply on account. D. A. Miller agrees to allow them credit for this draft if accepted by Hines, also to allow discount. Make the required entry that each party would make on his books, assuming that Hines accepts the draft when it is presented.

8. January 1st. James Donaldson, W. H. Peck, and R. C. Anderson form a partnership for the purpose of engaging in the retail grocery business. Mr. Donaldson invests cash, $2,500.00; a note for $650.00, due in four months, with interest from date; an account due him from D. C. Muller for $256.27. W. H. Peck invests cash, $1,500.00; real estate, $2,000.00; the firm assumes a mortgage of $1,000.00, which is dated July 1st of the preceding year, with interest at 5%; a team of horses and wagon, valued at $500.00; five shares of City National Bank stock, valued at $127.50 a share. R. C. Anderson invests his present stock of goods, which is invoiced at $1,626.95; cash, $500.00; personal accounts due him, $689.47, less 5% reserve for bad debts; notes due him for $427.56, less 5% depreciation; furniture and fixtures, cost value, $750.00, less 5% for depreciation; he owes a note at the City National Bank for $500.00, which the new firm agrees to pay.

Make the required opening entries. Where depreciation is considered, it is necessary to let the account representing the property invested show the full value, and the reserve for depreciation account show the amount of the depreciation. In estimating the value of the partners' investments, the depreciation reserve must be deducted.

9. Johnson & Crim owe Chas. Adair $147.85, which is due. A. V. Daws owes them $126.40. They draw at thirty days' sight on Daws in favor of Adair for $126.40, and send the draft to Adair for credit. Adair accepts the draft. Make the entry each party would make on his books.

10. Exchanged a horse named Bill (cost price, $200.00), for a horse named Sam, valued at $150.00, and received $25.00 difference in cash. Make the required entry.

11. E. R. Brown and C. W. Simpson are partners in the retail clothing business. At the end of the fiscal period, July 1st, their bookkeeper makes the Financial, Trading, and Profit and Loss statements. After all of the entries have been made at the close of the period, the Trial Balance shows the following:

E. R. Brown, Capital, Dr. $1,000.00, Cr. $3,500.00; C. W. Simpson, Capital, Dr. $1,000.00, Cr. $3,500.00; E. R. Brown, Personal, Dr. $387.65; C. W. Simpson, Personal, Dr. $639.87; Inventory, Dr. $3,621.92; Freight In, Dr. $1,129.63, Cr. $26.40; Purchases, Dr. $6,894.43, Cr. $391.84; Sales, Dr. $365.32, Cr. $10,862.13; General Administrative Expense, Dr. $942.21, Cr. $52.35; Selling Expense, Dr. $414.95; Notes Receivable, Dr. $1,010.24; Interest, Dr. $17.95, Cr. $80.04; Furniture and Fixtures, Dr. $850.50; Reserve for Depreciation of Furniture and Fixtures, Cr. $61.95; Notes Payable, Cr. $2,500.00; Delivery Equipment, Dr. $350.00; Reserve for Depreciation of Delivery Equipment, Cr. $75.00; Personal Accounts Receivable, Dr. $4,168.43; Personal Accounts Payable, Cr. $3,785.16; Sales Discount, Dr. $624.98, Cr. $35.50; Purchases Discount, Dr. $20.00, Cr. $391.64; Insurance, Dr. $125.00; Cash, Dr. $1,791.65; Sundry Resource Inventories, Dr. $67.28; Sundry Liability Inventories, Cr. $150.00. Salable merchandise on hand as per inventory at the close of the fiscal period, $3,618.92.

Make the Financial, Trading, and Profit and Loss statements and the journal entries required to close the accounts affecting the Trading statement into the Trading account, and the accounts affecting the Profit and Loss statement into the Profit and Loss account. Each partner is to receive one-half of the net profit.

12. At the close of the fiscal period, extending from January 1st to July 1st, the following is the condition of the accounts on the ledger that are affected by the journal entries required at the close of the fiscal period.

General Administrative Expense, Dr. $972.65; Selling Expense, Dr. $527.36; Insurance, Dr. $362.50; Store Fixtures, Dr., $365.90; Delivery Equipment, Dr., $450.00; Interest, Dr., $65.27, Cr., $215.40; Accounts Receivable, Dr., $3,692.65. 5% of the value of store fixtures, and 10% of the delivery equipment is to be set aside for reserve for depreciation. 3% of the amount due from customers is to be set aside as a reserve for bad debts. There is $27.65 interest due the business on outstanding notes, and the business owes $65.50 interest on notes payable. One-half of the amount paid for insurance is to be charged to General Administrative Expense, this being the amount used during the fiscal period of one-half year. The rent for June, $65.00, remains unpaid. There are stamps and stationery on hand valued at $46.80. Johnson Bros. owe the business $46.50 for delivery services rendered during the month. A livery bill of $42.50, for board of horses for June, is not paid. (§ 199, ¶¶ 1—3.)

Make the required journal entries.

13. August 7th. H. C. Jordan owes the Brown Mfg. Co. a note for $2,500.00, which was dated May 15th, and due in four months with interest from date. The Brown Mfg. Co. owes him a note for $1,200.00, dated June 8th, and due in sixty days with interest from date. As the Brown Mfg. Co.'s note is due today, Mr. Jordan wishes to settle his note at the same time, and the Brown Mfg. Co. has agreed to accept the following settlement: Their own note which is due today; a note made payable to Mr. Jordan for $612.60, dated May 7th, and due in six months with interest at 6% from date; Mr. Jordan's note for $500.00, due in sixty days with interest from date; his check for the balance.

Make the required journal entries that each of these parties would make on his books, assuming that the note which Mr. Jordan transfers is represented by the Notes Receivable account on his books.

14. October 1st. At the close of the fiscal period the bookkeeper for R. G. Mathews makes the Financial, Profit and Loss, and Trading statements from the facts shown on his trial balance. The following accounts are used in making the Trading statement:

Inventory, Dr. $4,218.65; Freight In, Dr. $817.62, Cr. $36.80; Purchases, Dr. $6,614.35, Cr. $326.14; Sales, Dr. $218.45, Cr. $10,962.71; Purchases Discount, Dr. $13.50, Cr. $286.27; Sales Discount, Dr. $419.85, Cr. $15.00. The present value of salable merchandise on hand as per inventory taken at the close of the fiscal period is $3,842.96.

Make the Trading statement, and the journal entries required to close the accounts affecting this statement into the Trading account, and the balance of that account into the Profit and Loss account.

15. The accounts affecting the Profit and Loss account at the close of the fiscal period are as follows:

Trading account, Cr. $976.42; General Administrative Expense, Dr. $516.97; Commission, Dr. $56.42; Interest, Cr. $37.65; Real Estate Expense and Revenue, Cr. $218.40; Delivery Expense, Dr. $227.56.

Make the required Profit and Loss statement. The profit or loss is shared equally by R. A. Steele and C. W. Stephenson. After completing the statement, make the required journal entry to close the accounts affecting the Profit and Loss statement into the Profit and Loss account, and close each partner's share of the net profit or loss into his Capital account.

JUNE.

A continuation of the April and May business introducing the following: Admitting a Partner; new form of Cash Book; Accounts with Traveling Expense; Consignments; Accounts with Consignments and Shipments; Account Sales; Shipping Invoices; Commission Account; C. O. D. Shipments.

§ **215. Cash Book.** By referring to illustrations Nos. 86 and 87, the student will note that the cash book to be used in June is ruled with the same number of money columns on each side. The difference between the two forms is in the method of recording the transactions. This cash book overcomes the objections to that used in April and May, as explained in § 180, Note. The net amount of cash received is entered in the third column on the debit side and the net amount paid in the third column on the credit side, thus the totals of these two columns show the amount of cash received and paid, and the difference is the cash balance.

¶ 1. *Debit Side.* As explained in § 114, ¶ 1, all cash received is entered on the debit side of cash book. The total amount to be credited to the account written on the same line with the amount, is entered in the first column; the discount, if any, in the second column, and the net amount of cash received in the third column. If no discount is allowed, the same amount is entered in both the first and third columns, because in this case, each represents the amount of cash received.

¶ 2. *Credit Side.* As stated in § 114, ¶ 2, all cash paid is entered on the credit side of the cash book. The amount debited to the account written on the same line with it, is entered in the first column; the discount, if any, in the second column, and the net amount of cash in the third column. If no discount is received, the same amount is entered in both columns, because in this case, each represents the amount of cash paid.

¶ 3. *To Prove Cash.* Foot each of the three columns on the debit side and enter the total in small pencil figures beneath the last amount. The difference between the totals of the first and second columns must be the same as the total of the third column. Foot each of the three columns on the credit side and place the total in small pencil figures just below the last amount. The difference between the totals of the first and second columns must be the same as the third column. The difference between the total of the third column on the debit side plus the cash balance at the beginning of the month, and the total of the third column on the credit side is the cash balance, which is represented by the money in the bank and on hand. This form is very satisfactory for proving cash, because each side of the cash book is proved to be correct and the balance is found by taking the difference between the total receipts and payments which are represented in the third columns.

¶ 4. *To Post from the Cash Book.* Each amount written in the first column on the debit side is posted to the credit side of the account written on the same line with it, except a customer's accounts on which discount has been allowed. Instead of crediting the customer with the one amount (first column) written on the same line with his name, credit him with the actual amount of cash received (third column) and on the line below this, with the amount of the discount to which he is entitled (second column). This permits the credit man to know at a glance who discounts his bills. Each amount entered in the second or third column is not posted, but the total at the end of the month. At this time post the total of the second column to the debit side of the Sales Discount account. The student will note that this is posted to the debit side, which is the reverse of the usual posting. The reason for this is because each customer is credited for the discount, hence the Sales Discount account must be debited in order to keep the debits and credits equal. The total of the third column is not posted unless a Cash account is kept in the ledger; if one is kept, the total is posted to this account. In this set, no Cash account will be kept in the ledger unless the teacher requires it.

Each amount in the first column on the credit side is posted to the debit side of the account written on the same line with it. This applies to all amounts, as it is not necessary to show the discount deducted from a creditor's account. Amounts entered in the second and third columns are not posted until the end of the month. At this time the Purchases Discount account is credited for the total of the second column. The student will note that this is the reverse of the usual posting from the credit side of the cash book. The reason for this is that each creditor is charged with the discount at the same time he is charged with the amount of cash paid him, and it is necessary to credit the Purchases Discount account in order to keep the debits and credits equal.

The total of the third column is not posted unless a Cash account is kept in the ledger. As explained above, no Cash account will be kept in this set. Illustration No. 86 shows the debit side, and No. 87 the credit side, with sufficient entries to illustrate the use of the various columns. The correct ruling for the end of June is shown at the bottom of each illustration.

TRAVELING EXPENSE ACCOUNT.

§ 216. **The Object of this Account** is to show the amount paid for the expenses of traveling men. In modern business it is very necessary for a representative to call on the customers and prospective customers and solicit orders. These representatives, or salesmen, must spend money for railroad fare, hotel accommodations, and such other services as they may need. It is necessary to keep an account with each traveling man and charge him with all amounts which he receives, and credit him with amounts paid in the interest of the business. The Traveling Expense account is a part of the Selling Expense account, and is kept in order to distinguish between the cost of the local sales expense and traveling sales expense.

Debit Traveling Expense Account:

¶ 1. For salaries of traveling men.

¶ 2. For amounts paid for railroad fare, hotel accommodations, livery, etc., as shown by each traveling man's weekly or monthly report of expenses.

Credit Traveling Expense Account:

¶ 3. For any amount received that decreases the charges made to this account.

¶ 4. *The Difference between the two sides of this Account* is a loss, and appears in the Profit and Loss statement as one of the operating expenses, unless it is closed into the Selling Expense account before the statement is made. It is best practice to let the account remain open and include it with the selling expenses on the Profit and Loss statement.

¶ 5. *To Close the Traveling Expense Account.* This account is closed into the Profit and Loss account by the journal entry that closes those accounts affecting the Profit and Loss statement. After this entry is posted, it will balance and is ruled by single and double red lines and the footings entered in black ink.

Traveling Expense

191-					191-				
June	22	C. A. Howell	J.14	77 65	June	30	Selling Ex.	J.16	179 75
	30	C. A. Howell	J.15	102 10					
				179 75					
				179 75					179 75

Illustration No. 85. Traveling Expense Account.

Cash

June Receipts

Date	L.F.	Name of Account	Explanation	General		Sales Discount		Net Cash Received	
1		Balance	$245.90						
		Charles A. Howell, Capital	Investment	1040	05			1040	05
		Jones Brick Co.	Full of acct.	47	10			47	10
		M. J. Hall & Son	On account	50				50	
		Stewart & McCampbell	" "	50				50	
		W. E. Drummond	" "	25				25	
		J. L. Luttrell	" "	35	72		72	35	
		J. W. Blackburn	" "	100		2	00	98	
		Wallace & Davis	" "	153	06	3	06	150	
2		C. H. Gamberling	Full of acct.	252	70	5	05	247	65
		Rude Bros.	" " "	509	62	10	19	499	43
				3471	84	29	92	3441	92
4		Sales	Cash sales	455	10			455	10
				3926	94			3897	02
30		A. A. Harper & Co.	Full of acct.	511	18	10	22	500	96
		Warren & Butler	" " "	163	38			163	38
				14290	37	127	32	14163	05
	✓	Sundries (Cr.)		14290	37				
		Sales Discount (Dr.)				127	32		
	✓	Net Receipts (Dr.)						14163	05
	✓	Balance June 1.						245	90
								14408	95

Illustration No. 86. Debit Side of Cash Book.—June.

Cash

June — Payments.

Date	L.F.	Name of Account.	Check No.	General.	Purchases Discount.	Net Cash Paid.
1		Gen'l Admr. Expense	Check #44	90		90
		C. W. Keeland, Personal	" #44	60		60
		A. D. Munson	" #44	50		50
		Three Rivers Transportation Co.	" #45	147 41		147 41
		Selling Expense	" #46	70		70
		Selling Expense	" #47	21 25		21 25
2		Sweetwater Milling Co.	" #48	485	24 25	460 75
		Notes Payable	" #49	314 38		314 38
		Selling Expense	" #50	50		50
				1288 04		1263 79
5		Notes Payable	Hall S. & L. Co. note	50		50
		Western Hay & Grain Co.	Check #51	430 23	12 91	417 32
6		C. A. Howell, Personal	Expense money	100		100
		Delivery Equipment	Check #52	150		150
		Coal Creek Coal Co.	" #53	130	2 60	127 40
				2148 27	39 76	2108 51
9		Selling Expense	Pay roll	60		60
30		Selling Expense	Pay roll	60		60
		Gen'l Admr. Expense	Extra help	20		20
		A. D. Munson, Personal	Private use	20		20
		Gen'l Admr. Expense	Check #76	50		50
				13543 76	256 11	13287 65
	✓	Sundries (Dr.)		13543 76		
		Purchases Discount (Cr.)			256 11	
	✓	Net Payments (Cr.)				13287 65
		Balance June 30th				1121 30
						14408 95
						14408 95

Illustration No. 87. Credit Side of Cash Book.—June.

§ 217. **Commission Merchant.** The commission merchant is one who accepts merchandise belonging to another and sells it on the account and risk of the owner, charging a commission for his services. He does not buy the goods consigned to him, neither is he responsible for them until after they have been sold. The person who ships the goods is the consignor. The commission merchant who is to sell them is the consignee. When goods are shipped on consignment, it is necessary for the shipper to keep a special account with them, because they are not sold. The commission merchant does not own the goods, but sells them for the account and risk of the owner, hence he must keep a special account with them.

NOTE.—Formerly this method of selling merchandise was very popular, because it enabled the owner to retain title until the goods were sold and permitted him to receive the profit of any increase in the market value. On account of many objections brought about by experience, this method is not very popular at present. The progressive merchant prefers to buy the goods which he sells. Merchandise usually handled on consignment is either of a perishable nature, or that in which a large investment is necessary. As an illustration of the first, we have vegetables, poultry, eggs, etc. As an illustration of the second, we have cotton and some classes of grain. Even these classes of merchandise are very often purchased outright. Sometimes the manufacturer of a new article will ship on consignment until he has an established trade.

SHIPMENT ACCOUNT.

§ 218. **The Object of this Account** is to keep a record of goods shipped to some person or firm to be sold on consignment. This account is kept by the owner of the goods and represents to him their cost value. The account is designated by the name of the person or firm to whom the shipment is made, together with the words, "Shipment No. 1," for the first shipment. Additional shipments made to the same party would be numbered in consecutive order.

Debit the Shipment Account:

¶ 1. For the cost price of goods shipped on consignment.

¶ 2. For any amounts paid for freight, drayage, or other charges that serve to increase the cost of the goods.

Credit the Shipment Account:

¶ 3. For all cash received in payment of sales for goods consigned.

¶ 4. For notes signed or drafts accepted by the consignee on account of shipment.

¶ 5. For the net proceeds of the account sales.

Byron & Bros. Shipment No. 1.

191					191				
June	14	Purchases	J.13	495 00	June	20	a/c of Sales	C.10	579 95
	30	Profit & Loss	J.16	84 95					
				579 95					
				579 95					579 95

Illustration No. 88. A Shipment Account.

¶ 6. *The Difference between the two sides of this Account* will show a profit or a loss; a profit if the credit side is the larger, and a loss if the debit side is the larger. If all the goods have not been sold at the time the statements of the business are made, the value of these is represented in the Sundry Resource Inventories account, and after the ledger is closed the Shipment account will showthevalue of these goods below the ruled line. The difference is used in making the Profit and Loss statement, and is listed among the profits and losses.

¶ 7. *To Close the Shipment Account.* This account is closed into the Profit and Loss account by the journal entry that closes the accounts affecting the Profit and Loss statement. After this entry is posted it will balance, and is ruled with single and double red lines and footed with black ink.

EXERCISES IN SHIPMENT ACCOUNTS.

The following exercises are given to familiarize the student with the various debits and credits that affect the Shipment account as outlined in § 218, ¶¶ 1—5. References are to the paragraph numbers. These are not given in every case, but only where the student may be in doubt as to the proper debit or credit. The exercises are to be worked out on ledger paper and handed to the teacher for approval. Exercise No. 68 is shown in illustration No. 88.

EXERCISE No. 68. June 14th, shipped to Byron Bros., Centreville, 50 brls. Superior flour. cost $3.60 per brl.; 50 brls. Fancy flour, cost $3.30 per brl.; 50 brls. Peerless flour, cost $3.00 per brl, (¶ 1.) 20th, received an account sales showing the sales, also their check for the net proceeds, $579.95. (¶ 5.) At the close of the fiscal period, June 30th, the account is closed by journal entry and the balance transferred to the Profit and Loss account.

EXERCISE No. 69. October 25th, shipped Macon & Brown, Chicago, 1,000 bu. of Irish potatoes to be sold on our account and risk. These cost us 59c per bu. (¶ 1). 25th, paid $12.50 for having the potatoes loaded on the car (¶ 2). Nov. 10th, received check to apply on account of shipment, $419.65 (¶ 3); 20th, they accepted our ten-day draft for $125.00 to apply on account of the shipment (¶ 4). December 9th, they sent an account sales for the remaining 500 bu. with a check for the net proceeds, $291.64 (¶ 5). At the close of the fiscal period, December 31st, the account is closed and the balance transferred to the Profit and Loss account. Enter the difference as shown in illustration No. 88; rule the account with single and double red lines and enter the footings in black ink.

EXERCISE No. 70. May 26th, shipped the Central Commission Co., New York, 500 crates, 30 qts. each, of strawberries. These cost us 13c per qt.; 27th, gave the Harold Transfer Co. a check for $86.75 for drayage and packing the strawberries on the car. June 1st, paid $1.25 for telegram on account of shipment; 10th, they accepted a five-day draft for $1,000.00, on account of shipment; 15th, received a check for $400.00 on account of shipment; 23d, they sent us a note for $118.75, which was transferred to them in payment for some of the berries sold from the shipment; 26th, received an account sales showing the net proceeds to be $1,765.25, and their check for the balance due after deducting payments previously made.

CONSIGNMENT ACCOUNT.

§ 219. **The Object of this Account** is to show the amounts paid and received for goods to be sold on consignment. It is the account that the commission merchant keeps with the goods received from the owner to be sold on consignment. The account is not affected unless the commission merchant exchanges property for the benefit of the consignment or receives property in exchange for sales of goods belonging to the consignment. An account is kept with each quantity of goods received. It is designated by the name of the consignor (owner), followed by the word "Consignment" and the number. The first consignment received from Robison Bros. is named "Robison Bros.' Consignment No. 1," the second "Robison Bros.' Consignment No. 2," etc.

Debit the Consignment Account:

¶ 1. For any amount paid for freight, drayage, or any services in handling the merchandise belonging to the consignment.

¶ 2. For any amounts paid, notes given, or drafts accepted, as part payment of the goods sold.

¶ 3. For the charges made at the time the account sales is rendered, which is usually for drayage, storage, insurance and commission.

¶ 4. For the net proceeds, which is the net amount due the owner after all the goods have been sold, and the charges mentioned in ¶¶ 1, 2 and 3 have been made.

Credit the Consignment Account:

¶ 5. For all cash or credit sales of merchandise belonging to the consignment.

¶ 6. *The Balance of this Account* will show a resource or a liability; a resource if the debit side is the larger, and a liability if the credit side is the larger. The amounts that appear on the debit side represent charges, and the amounts on the credit side, sales. If the net charges exceed the sales, the consignor owes the commission merchant this amount. If the net sales exceed the charges, the commission merchant owes the consignor the difference. This difference appears in the Financial statement either as a resource or a liability, as explained. The value of goods on hand is not considered, because they belong to the consignor.

¶ 7. *To Close the Consignment Account.* This account is not closed until the account sales is rendered. After the journal entry for the charges has been posted, the two sides are equal and the account is ruled with single and double red lines and footed in black ink. If there are any goods on hand, the value of these will not be shown on the account in dollars and cents, because they represent nothing to the commission merchant, being the property of the consignor. A note of the quantity should be made on the debit side for reference in rendering the net account sales. Illustration No. 89 shows the form of the Consignment account.

Rosenbeck & Williams, Consignment No. 1.

191		49561#			191				
June	12	Extra Labor	J.12	2 50	June	16	20119#	C.8	140 83
	16	Freight	C.9	59 47		21	28365#	C.10	198 56
									339 39
	26	Drayage	J.15	9 80			1077# damaged		
		Storage	J.15	8 29					
		Commission	J.15	16 97					
		Net Proceeds	C.11	242 36					
				339 39					
				339 39					339 39

Illustration No. 89. A Consignment Account.

EXERCISES IN CONSIGNMENT ACCOUNTS.

The following exercises are given to familiarize the student with the various debits and credits as outlined in § 219, ¶¶ 1—5. References are given to the paragraph numbers; these are not given in every case, but only where the student may be in doubt as to the proper debit or credit. The exercises are to be worked out on ledger paper and handed to the teacher for approval. Exercise No. 71 is worked out in illustration No. 89.

EXERCISE No. 71. June 12th, accepted carload of hay from Rosenbeck & Williams, Springfield, to be sold on consignment and paid $2.50 for unloading it from the car (¶ 1); 16th, sold for cash, 200 bales, 20,119 lbs., hay at $14.00 (¶ 5); 16th, gave the C. N. O. & T. P. Ry. Co. a check for $59.47, freight charged on hay (¶ 1); 21st, sold for cash, 290 bales, 28,365 lbs. hay at $14.00 (¶ 5); 26th, sent them an account sales. Our charges were 2c per bale drayage, 1c per bale storage, 1% of the sales for insurance, and 5% for commission (¶ 3). We enclosed check for the net proceeds (¶ 4).

EXERCISE No. 72. November 5th, received from Davis & Bros., of Cleveland, 5,000 baskets of grapes. The shipping invoice shows that these cost them 9½c per basket; 7th, gave the C. C. C. & St. L. Ry. Co. a check for $107.65 to pay freight on the grapes. (¶ 1); 8th, sold for cash, 1,000 baskets of grapes at 14c (¶ 5); 9th, paid 80c for telegram on account of consignment (¶ 2); 12th, sold the Central Grocery Co., on account, 2,000 baskets of grapes at 14c (¶ 5); 13th, accepted draft at ten-days for $150.00 on account of the consignment (¶ 2); 14th, sold for cash, 500 baskets at 14c (¶ 5); 16th, sold 1,500 baskets at 13½c for cash; 20th, rendered an account sales of the consignment; charged ½c a basket for storage, ½c a basket for drayage, $10.00 for insurance and 4% for our commission (¶ 3); sent check for the net proceeds (¶ 4).

EXERCISE No. 73. June 5th, received from the Florida Commission Co., Jacksonville, 1,000 watermelons to be sold on their account and risk; 6th, paid for help for unloading and transferring to the warehouse, $12.50; 7th, sold for cash, 200 melons at 28c; 9th, sold T. E. Burns & Co., 150 melons at 28c; 12th, paid 90c for telegram on account of consignment; 14th, collected 40c for one of the melons which was broken by the carelessness of the driver, and which he was allowed to eat (¶ 5); 15th, sold for cash, 300 melons at 27c; 18th, sent the consignor a check for $50.00 on account of consignment; 22d, sold W. R. Carter & Son, 100 melons, at 26c; 27th, accepted ten-day draft for $75.00 on account of consignment; 28th, sold for cash, 125 melons at 27c; July 3d, sold for cash the

Invoice of Shipment.

June 13, 191

Invoice of Flour

Shipped via ______ *Consigned to* Byron Brothers,

216 Main St., Centreville, *to be sold for account and risk of*

C. W. KEELAND & CO., *Consignors.*

50	bbls Superior Flour @ $3.60	180	00			
50	" Fancy " 3.30	165	00			
50	" Peerless " 3.00	150	00	495	00	

Illustration No. 90. An Invoice of Shipment.

remainder of the melons at 24c; 6th, rendered an account sales and sent check for the net proceeds. Our charges were 1c per melon for drayage; 1c per melon for storage; 1% of the sales for insurance; 4½% of the total sales for commission.

§ **220. Shipping Invoice.** This is a blank used by the owner on which to list the goods shipped on consignment. It is the same form as a bill, but differs in that the title of the goods remains in the owner's name, while in a bill, the title to the goods passes to the purchaser. It is customary to show the cost price of the merchandise on the shipping invoice, that the commission merchant may know the cost and can endeavor to sell it at such a price as will give him (the owner) a profit. Illustration No. 90 shows the usual form.

§ **221. Account Sales.** This is a blank on which the commission merchant reports the sales of goods shipped on consignment. It is arranged to show the quantity of merchandise received, the articles sold and the various charges. When made out correctly, the owner can ascertain the quantity of goods sold, the various charges and what they are for, and know if there are any goods remaining on hand. The amount due the owner for the sale of his goods, which is the gross amount of sales, less all charges, is the net proceeds. The commission merchant may pay this or pass it to he credit of the owner's account. Illustration No. 91 shows a popular form of an account sales.

Account Sales.

June 25, 191__

M Rosenbeck & Williams *Address* Springfield

Below please find account sales of Merchandise

Sold by C. W. KEELAND & CO.

Received June 11 191__ *and sold for account*

of Yourselves

		Sales				
June	16	200 bales, 20119#, Hay, $14.00	140	83		
	21	290 " 28365", " 14.00	198	56	339	39
		10 bales too badly damaged to be				
		sold.				
		Charges				
		Freight Drayage Storage Insurance Commission Advances				
		$59.47 $9.80 $4.90 $ 3.39 $ 16.79 $ 2.50			97	03
		Net Proceeds by Check			242	36

Illustration No. 91. Account Sales.

COMMISSION ACCOUNT.

§ **222. The Object of this Account** is to show amounts received or paid for commission. It represents amounts paid others for services rendered the business, and amounts paid the business for services rendered others. The account is used in connection with the commission business.

Debit the Commission Account:

¶ 1. For the value of any property given in exchange for services rendered the business on a commission contract.

Credit the Commission Account:

¶ 2. For the value of property received from others in exchange for services rendered them by us on a commission proposition

¶ 3. *The Difference between the two sides of this Account* will show a profit or a loss; a profit if the credit side is the larger, and a loss if the debit side is the larger. It is listed on the Profit and Loss statement after the regular profits or losses have been listed.

¶ 4. *To Close the Commission Account.* This account is closed into the Profit and Loss account by the journal entry, which closes the accounts affecting the Profit and Loss statement. After this journal entry has been posted, the account will balance and is ruled with single and double red lines and footed in black ink. (See Note, page 138.)

Commission

191 June	30	Profit & Loss	J16	16	97	191 June	26	R&W. Cons. No 1.	J15	16	97

Illustration No. 92. The Commission Account.

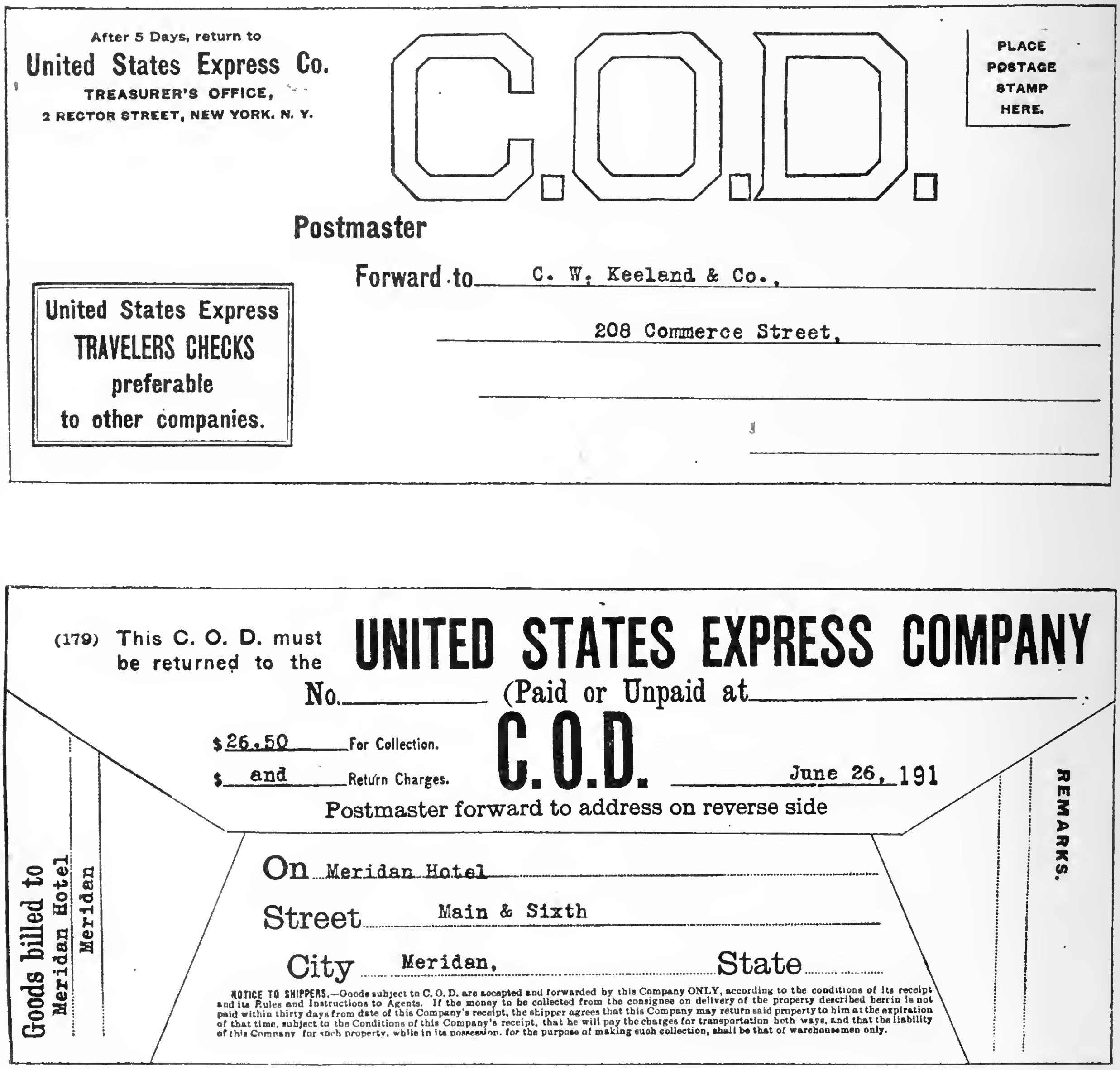
§ 223. C. O. D. Shipments. When goods are sold and the purchaser agrees to pay for them on delivery, they are shipped out C. O. D., that is, "Collect on delivery." If the customer lives in the same city, the representative who delivers the merchandise makes collection before delivering it. If he lives out of the city, they must be shipped to him by some transportation company, which may be either freight or express. It is not good policy to send goods C. O. D., unless some part of the purchase price is paid, because the purchaser might decline to accept them when delivered. This is especially true with out-of-town shipments. If the purchaser refuses to accept the goods and the seller has not collected some part of the shipment, he may lose the transportation charges both ways. Unless a C. O. D. shipment is made to a person who has a financial rating, it is customary to require a payment sufficient to cover transportation charges both ways and the trouble of returning the shipment.

¶ 1. *Freight Shipments.* When a C. O. D. shipment is made by freight the shipper addresses the package to himself at the point to which the shipment is made. He makes a bill for the amount of the sale and mails it to the purchaser. A C. O. D. bill of lading is made and signed by the agent of the railroad company. Instead of being made in favor of the purchaser, it is made in favor of the seller and marked, "Notify C. A. Jones & Co.," or whatever the name of the purchaser may be. A draft is drawn in favor of a local bank, or some bank in the city where the purchaser lives, and attached to the bill of lading. Both of these are endorsed, then sent to the bank for collection. The bank notifies the purchaser that it holds the draft. The railroad company notifies the purchaser when the goods are delivered. The purchaser then goes to the bank, pays the draft, gets the bill of lading, and upon presentation of this can receive the goods. Special arrangements may be made whereby the purchaser can have the privilege of examining the goods before honoring the draft; but unless there are special arrangements, he can not have access to them until the draft is paid.

A special form of bill of lading is required. This does not differ materially from illustrations Nos. 79–81, except a blank space is provided on the back for the endorsement. This special form will be illustrated later in the course.

¶ 2. *Express Shipments.* When a C. O. D. shipment is made by express, the Express Company will not deliver it until the purchaser pays the charges and the value of the shipment. A bill is made for the amount of the shipment and enclosed in a special envelope provided by the Express Company. The envelope, which is marked in large letters, "C. O. D.," accompanies the package. When it reaches destination, the express agent notifies the purchaser to call and receive it, or sends it out by wagon.

Upon payment of the amount mentioned in the bill and charges, if so indicated on the C. O. D. envelope, the agent delivers the package to the purchaser. The money received from the purchaser is sent to the seller. Sometimes the Express Company will return the same money received, and sometimes it will retain the money and send an Express Money Order, or a C. O. D. check payable by the company. The latter method is becoming more popular, because it avoids the loss of money which might be appropriated by some employee. If the Express Money Order is sent through the mail and lost, it is worth nothing to the finder, because it must be endorsed by the seller. Illustration No. 93 shows the form of special envelope provided by the Express Company for containing the invoice for a C. O. D. shipment.



After 5 Days, return to
United States Express Co.
TREASURER'S OFFICE,
2 RECTOR STREET, NEW YORK. N. Y.

C.O.D.

PLACE POSTAGE STAMP HERE.

Postmaster

Forward to C. W. Keeland & Co.,
208 Commerce Street,

United States Express
TRAVELERS CHECKS
preferable
to other companies.

(179) This C. O. D. must be returned to the
UNITED STATES EXPRESS COMPANY
No.______ (Paid or Unpaid at______

$ 26.50 For Collection.
$ and Return Charges.
C.O.D.
June 26, 191
Postmaster forward to address on reverse side

Goods billed to
Meridan Hotel
Meridan

On Meridan Hotel
Street Main & Sixth
City Meridan, State

REMARKS.

NOTICE TO SHIPPERS.—Goods subject to C. O. D. are accepted and forwarded by this Company ONLY, according to the conditions of its receipt and its Rules and Instructions to Agents. If the money to be collected from the consignee on delivery of the property described herein is not paid within thirty days from date of this Company's receipt, the shipper agrees that this Company may return said property to him at the expiration of that time, subject to the Conditions of this Company's receipt, that he will pay the charges for transportation both ways, and that the liability of this Company for such property, while in its possession, for the purpose of making such collection, shall be that of warehousemen only.

Illustration No. 93. Both Sides of an Express C. O. D. Envelope.

QUESTIONS.

1. Describe the form of cash book used in June. (§ 215.)
2. Describe the method of proving cash.
3. Name some advantages of this form over that used in April and May.
4. Describe the method of posting from the June form of the cash book.
5. Where is the total of the discount column on each side posted? Why?
6. Define the Traveling Expense account. (§ 216.)
7. Name the two special debits and the two special credits.
8. What does the difference show?
9. Why is it a part of the Selling Expense account?
10. Define the Commission Merchant. (§ 217.)
11. Can you name any class of goods that could be handled to a better advantage on consignment?
12. Define the Shipment account. (§ 218.)
13. Name the two special debits and three special credits.
14. What does the difference show?
15. Define the Consignment account. (§ 219.)
16. Name the three debits and one credit.
17. What does the difference show?
18. How is this account closed?
19. Define a Shipping Invoice. (§ 220.)
20. Define an Account Sales. (§ 221.)
21. Define the Commission account. (§ 222.)
22. Name the debits and credits.
23. What does the difference show?
24. Define C. O. D. shipments. (§ 223.)
25. Describe the method of making out the bill of lading and marking the package when a C. O. D. shipment is made by freight.
26. Describe the method when a C. O. D. shipment is made by express.

JOURNAL ENTRIES AND STATEMENTS.

EXERCISE No. 74. 1. July 1st. Bought of W. L. Lawson for $16,500.00 one-half interest in the Davis Mill at Ducktown, paying for the same as follows: Real estate, cost value, $3,000.00; note signed by Earl Robinson (Notes Receivable), dated March 16th, due in six months with interest at 6% from date, $2500.00; twenty-five shares of First National Bank stock valued at $169.50 per share; a Certificate of Deposit for $5,000.00, dated March 1st, with interest at 4%; check for the balance.

Make the required journal entry.

2. January 1st. R. D. Wolf, C. B. Lowery and A. C. Witt form a partnership for the purpose of engaging in the retail clothing business. Mr. Wolf invests cash, $5,000.00; a certificate of deposit for $1,500.00, dated August 1st, with 4% interest from date; a note for $2,000.00, dated August 17th, due in seven months, with interest at 7% from date; an account owed him by W. O. Watson for $1,327.85. Mr. Lowery invests cash, $1,000.00; stock of goods on hand valued at $6,871.92; note due him for $917.96, dated September 9th, and due in four months, with interest at 8% from date; accounts receivable, $1,496.91, less 2% reserve for bad debts; office equipment, cost value, $1,200.00, less 10% for depreciation; store fixtures valued at $1,500.00, less 10% for depreciation; the new firm assumes a note due the First National Bank for $1,500.00, dated October 1st, and due in five months, with 6% interest from date; an account due Bush & Co. for $750.00. A. C. Witt invests real estate (storehouse in which they are to do business) valued at $5,000.00; cash, $2,000.00; a note for $3,000.00 dated August 17th, due in six months, with interest at 5% from date; a judgment against A. H. Jamison for $665.87, obtained May 16th, with interest at 6% from date. He guarantees that the judgment will be paid within eight months after date.

Make a journal entry for the investment of each. The office equipment, store fixtures and personal accounts invested by Mr. Lowery are entered at their cost value, and the proper depreciation accounts credited for the depreciation, and reserve for bad debts. The judgment is entered by writing the name of the person against whom it is obtained and the word "Judgment" after it. A full explanation must be given for the investment of each.

3. October 1st. Davis Bros. owe the First National Bank a note for $1,500.00, due today. They pay this by giving them a new note for $1,000.00, due in sixty days, and check for the balance and interest on the new note for the time it is to run, at 7½%. Make the required journal entry.

4. August 1st. Lady & Mann owe us $1,865.50, which is the amount of an invoice purchased April 5th, terms, n /60. They settle this by transferring a note for $1,200.00, signed by W. H. White, dated June 1st, due in four months, with interest at 6% from date, and their check for the balance. We charge them interest on the account for the number of days it is overdue and give them credit for the accrued interest on the note.

5. September 1st. Widener & Son owe W. A. Cottrell $416.87; W. A. Cottrell owes W. C. Fulcher $627.65, which is for an invoice purchased August 25th, terms, 5%—10 days, net 60. Mr. Cottrell draws a three-days' draft on Widener & Son and sends it to W. C. Fulcher as part payment of the amount he owes Mr. Fulcher.

Make the journal entry each of these parties would make on his books.

6. October 1st. We owe Spencer Bros. $1,686.75, which is for an invoice purchased September 22d, terms, 3 /10—n /30. Spencer Bros. agree to accept our sixty-day note in payment for this, less discount, provided we will make the note for such an amount that when discounted at the bank at 7% the net proceeds will equal the invoice, less discount. We accept their proposition.

Make the journal entry that each would make on his books, assuming that Spencer Bros. discounted the note at their bank the day it was received.

7. January 1st. W. H. Satterfield, Walter Graham and C. H. Hobson form a partnership for the purpose of engaging in the wholesale grocery business. Each partner is to receive interest on the amount invested and to be charged with interest on any amounts withdrawn. At the end of the year the profits are to be shared in proportion to the net amount invested during the year, after the entry for the interest has been made.

At the beginning each invests $3,000.00 in cash; February 7th, Mr. Satterfield invests $1,400.00; February 21st, Mr. Graham invests $2,500.00; March 1st, Mr. Satterfield withdrew $100.00; March 9th, Mr. Graham withdrew $500.00; March 17th, Mr. Hobson invests $500.00; March 25th, Mr. Hobson withdrew $350.00; April 6th, Mr. Graham invests $2,000.00; April 7th, Mr. Satterfield invests $2,500.00; April 27th, Mr. Hobson invests $800.00; May 5th, the firm gave Robert Clark a check for $1,762.85, which is charged to Mr. Satterfield's account; May 7th, Mr. Graham withdrew $350.00; May 19th, Mr. Hobson withdrew $862.50; June 5th, Mr. Satterfield invests $1,500.00; June 18th Mr. Graham transferred to the firm, as an investment, a Certificate of Deposit for $2,400.00, dated March 5th, with interest at 4% from date: June 16th, Mr. Hobson invests $1,600.00; June 27th, Mr. Satterfield invests $2,150.00; June 29th, Mr. Graham withdrew $1,250.00; August 1st, Mr. Satterfield withdrew $875.00; August 29th, Mr. Hobson withdrew $962.50; September 5th, Mr. Satterfield invests $1,500.00; September 27th, Mr. Graham invests $3,267.00; August 9th, Mr. Hobson invests $2,250.00; November 5th, Mr. Satterfield withdrew $2,165.70; November 16th, Mr. Graham withdrew $625.00: November 28th, Mr. Hobson withdrew $1,427.62.

At the end of the year, December 31st, the Financial, and Profit and Loss statements show a net gain of $8,627.85. Each partner's Capital account is credited with his share of the net gain according to the agreement.

Open accounts with each partner, crediting him with the investments and interest on each, from the time it was made up to and including December 31st, and charge him with withdrawals and interest on amounts withdrawn. Open an account with interest, and debit and credit this as the partners' accounts are debited and credited. Deduct the net amount of interest from the profits, and credit each partner with his share, according to the agreement. Rule the interest account, the three Partners' accounts, and write the Present Capital of each on the credit side below the ruling.

8. The firm of Rankin & Henry conduct a branch store at No. 6242 Euclid Avenue. They have agreed to sell this to G. M. Craft, the manager, for $75,000.00. He makes settlement as follows: Cash, $1,500.00; a note signed by C. D. Dorley for $692.11, with accumulated interest (6%) for seventy-five days; real estate valued at $1,250.00; ten shares of Union Gas Co. stock, valued at $113.00 per share; balance on account. Make the required journal entry.

9. October 1st. Day & Howe owe Roberts Bros. $384.16, which is for invoice purchased September 22d, terms, 4/10—n/30. The bookkeeper sends a check for $378.14 to pay for this. Make the entry he would make on his books. October 6th Day & Howe received a letter from Roberts Bros., calling their attention to the fact that the check sent October 1st overpaid their account, and enclosing check for the overpayment. Make the entry the bookkeeper for Day & Howe would make on his books for this check.

10. December 13th. The bookkeeper for Day, Moxley, and Hatcher makes the Financial Trading, and Profit and Loss statements for the fiscal period. After the required journal entries have been made at the end of the fiscal period (§ 199, ¶¶ 1—3), the Trial Balance shows the following:

Chas. Day, Capital, Dr. $650.00, Cr. $6,000.00; Wm. Moxley, Capital, Dr. $400.00, Cr. $4,000.00; H. D. Hatcher, Capital, Cr. $4,000.00; Chas. Day, Personal, Dr. $87.65; Wm. Moxley, Personal, Cr. $186.92; H. B. Hatcher, Personal, Dr. $125.91; Inventory, Dr. $4,862.24; Purchases, Dr. $10,864.48; Cr. $374.96; Sales Discount, Dr. $629.50, Cr. $10.00; Purchases Discount, Dr. $20.10, Cr. $586.46; Freight In, Dr. $1,051.67, Cr. $13.91; Sales, Dr. $369.74, Cr. $15,616.68; Cash Balance, $4,680.52; Selling Expense, Dr. $927.62; Insurance, Dr. $300.00, Cr. $150.00; General Administrative Expense, Dr. $1,454.09, Cr. $62.95; Real Estate, Dr. $10,000.00, Cr. $5,000.00; Real Estate Expense and Revenue, Dr. $626.95, Cr. $71.73; Notes Receivable, Dr. $1,452.65; Notes Payable, Cr. $1,650.00; Furniture and Fixtures, Dr. $865.96; Reserve for Depreciation of Furniture and Fixtures, Cr. $165.90; Accounts Receivable, Dr. $3,586.42; Accounts Payable, Cr. $4,808.21; Reserve for Bad Debts, Cr. $71.73; Sundry Liability Inventories, Cr. $294.80; Sundry Resource Inventories, Dr. $108.75; salable merchandise on hand, at end of fiscal period is $3,621.52.

From these facts make the Financial, Trading, and Profit and Loss statements. It will be best to copy the accounts on a sheet of journal paper, and prove that the Trial Balance is in balance before making the statements. The net profit or loss is shared equally.

11. May 15th. Ogden Bros. owe Chatfield & Woods Co. $491.86, which is for an invoice purchased May 6th, terms, 3/10—n/30. Ogden Bros. send their check in payment for this, less discount. Make the entries for each party. May 18th, they receive a letter from Chatfield & Woods Co. advising them that there was an error of $20.00 in their (O. Bros.) favor in the invoice which they paid, and enclosing their check for the amount of the error, less the discount which had been deducted. Make the entries for each, assuming that Ogden Bros. charged all goods purchased to the Purchases account.

12. June 16th. Dallas Bros. receive an invoice from Green & Block for $927.36, terms, 5/10—n/60. June 25th, they send their check in payment for this, less discount. Make the required cash book entry. July 1st, Dallas Bros. receive two cases supposed to be the goods invoiced on the 16th. When opened, it is found that one case belongs to them, and the other, to some other firm. They find that they can make out with the one case received (value of contents, $619.65), and wire Green & Block this information, also, for disposition of the other case. Green & Block instruct them to deliver this case to J. A. Hickman, and draw on them at sight for the overpayment on the invoice of the 16th. This is done and the draft deposited in the bank as cash. Make the cash book entry that the bookkeeper for Dallas Bros. would make on his books.

13. July 6th. We sold Hood & Hasper a bill of goods amounting to $1,879.46, terms, 3/10—n/60. On the 15th, they settle for this as follows: Our note for $500.00 (Notes Payable), which they hold, dated May 5th, and due in sixty days; a thirty-day draft on the Central Coal Co. of this city, for $461.98, which they have accepted; their check for $500.00; balance on account. We allow them the discount on all the payments, but deduct 6% interest for 30 days from the draft accepted by the Central Coal Co. Make the required journal entry.

14. A. B. & C. are equal partners in the retail business. At the end of the year, after the books have been closed, their capital accounts stand as follows: A, Dr. $1,687.42, Cr. $9,841.78; B, Dr. $921.75, Cr. $8,311.42; C. Dr. $2,500.00, Cr. $9,471.12. They wish their accounts to show the same amount invested, and have made a settlement with each other to this effect. Make an entry which will give this result, and show the accounts required for making the adjustment.

NOTE.—The partner who has the least in the business will have to pay the others such an amount as will make his account equal theirs. This amount will not come into or go out of the business, as it is a private agreement. What is required of you, is to make a journal entry which, when posted, will make their accounts show the same results; also inform them who will receive and pay, and the amounts.

15. July 5th. We owe Arnold Bros. $2,654.25, which is for an invoice purchased June 26th, terms, 3/10—n/30. They advise that if we will accept a sixty-day draft for such an amount, that when discounted at the bank, at 7%, the proceeds will equal the amount of this invoice, less the discount, they will credit our account in full. We have agreed to do this. For what amount should the draft be drawn? Make the required journal entry.

16. July 1, 1911, J. H. Appel, J. L. Frazier and B. N. Bostwick form a partnership for the purpose of engaging in contract carpenter work. Each invests $200.00 in the business. It is agreed that each partner is to have $4.00 per day for all the time which he works, in addition to his share of the profits from the business. The partners are to invest additional funds when necessary and have the privilege of withdrawing any part of this extra investment when desired, in addition to his wage of $4.00 per day. The following amounts are invested and withdrawn by the partners:

July 15th, each withdraws $50.00; July 23d, J. H. Appel invests $75.00; August 4th, each withdraws $50.00; August 19th, J. L. Frazier invests $60.00; August 25th, J. H. Appel withdraws $40.00; J. L. Frazier, $35.00; and B. N. Bostwick, $50.00; September 5th, each withdraws $50.00; October 1st, B. N. Bostwick invests $100.00; October 5th, J. H. Appel withdraws $75.00; October 20th, each withdraws $35.00; November 1st, they pay $110.55 for extra labor; November 25th, J. H. Appel invests $75.00; December 1st, each withdraws $50.00; December 15th, each withdraws $25.00; December 20th, B. N. Bostwick withdraws $60.00.

January 1st, they desire to dissolve the partnership. All supplies and stock on hand are accepted by J. H. Appel at the present value, $115.75. The cash on hand is $1512.65. J. H. Appel has worked 132 days; J. L. Frazier, 138 days; and B. N. Bostwick, 119 days. What amount of the cash on hand would be paid each partner, allowing him $4.00 per day for his time as per agreement?

17. January 1, 1912, W. W. Adams, R. C. Rankin and J. H. Witt form a partnership for the purpose of engaging in the retail grocery business. Each partner is to be credited with his investment and 6% interest on the same, also charged with his withdrawals and 6% interest on the same. The following are the investments and withdrawals of each partner:

January 1st, W. W. Adams invests $1000.00; R. C. Rankin invests $1,200.00; J. H. Witt invests $850.00; January 25th, R. C. Rankin withdraws $350.00; January 29th, J. H. Witt invests $452.50; February 1st, W. W. Adams invests $250.00; February 25th, the firm gives C. L. Brownfield a check for $298.75, which is charged to W. W. Adams' account; March 5th, R. C. Rankin invests $386.48; April 4th, J. H. Witt withdraws $326.30; May 18th, W. W. Adams invests $581.65; June 1st, R. C. Rankin invests $452.89; June 15th, W. W. Adams withdrew $175.75; July 5th, J H. Witt withdrew $150.00; August 9th, R. C. Rankin invests $190.00; September 15th, W. W. Adams withdrew $200.00; September 30th, R. C. Rankin withdrew $165.50; October 19th, J. H. Witt invests $500.00; November 5th, W. W. Adams invests $250.00; November 27th, R. C. Rankin withdrew $200.00.

December 15th, they sell the business to the Peoples' Grocery Company for $5,500.00 cash. This is to be divided between the partners according to contract. What amount will each receive?

PART III.

CORPORATION BOOKKEEPING AND ACCOUNTING.

JULY.

Introducing controlling accounts, special accounts with selling expense, accounts peculiar to a corporation, the principles of corporation bookkeeping and accounting, the advantages of special ruling in all books of original entry, the notes receivable and notes payable books as books of original entry, and many other features of advanced bookkeeping and accounting.

INTRODUCTION.

"Correct records of all transactions are the fundamental basis of the effective economic regulation of the affairs of every person, partnership, corporation and government.

"A correct tabulation is not in itself a correct record. A record, to be correct, must be kept in a way which shows, by proper grouping, the true relation between every factor involved in the cost of living, cost of distribution, costs of doing business, and in the final statement, showing the profit or loss for the fiscal year, or for a period of years. . . . Just judgments are rendered only when based on a correct knowledge of facts.

"There is a wide difference between honest accounting and scientific accounting. One may have a record that will honestly account for every dollar received and expended, without having a record that will give any intelligent information regarding the true relation between economic factors involved in statements of costs or of profits or losses. The records of all accounts should be intelligently grouped to show the economic effect of every factor essential to the true statement of the costs or of profits or losses. Far greater harm results from unintelligent, than from dishonest, accounting.

"In practical affairs, intelligent accounting is the rule, dishonest accounting the exception. . . .

"Charges of dishonesty are more frequently based on conclusions drawn from, or on the results of a policy guided by, unintelligent accounting, than upon dishonest entries showing receipts or disbursements. Scientific accounting safeguards honesty. It prevents dishonesty. Losses caused by ignorance are enormously greater than losses caused by dishonesty. . . . Incompetent accounting is the cause of more failures than all other causes combined. It gives incorrect information as to costs of living, products and services, which leads to the acceptance of insufficient compensation, a course that must result in failure with a certainty from which there is no escape. No one can pay three dollars and sell for two dollars without impairing his capital. If he makes the transaction often enough, his entire capital will be exhausted; his failure will be announced. Incompetent accounting is the cause of retarded economic development. It fails to show where economies may be effected that will enhance profits or give advantages in meeting competition. . . .

"There can be no effective economic regulation without scientific accounting. This is true of all regulation. It applies with equal force to the regulation of private affairs by the person interested; to the regulation of partnership affairs by the partners interested; to the regulation of corporate affairs by the shareholders interested, and to the regulation of public affairs by the citizens interested. There can be no scientific accounting without a grouping of items that will correctly show the relation to each other of every essential economic factor in all statements of costs of living, costs of products. and costs of services, whether rendered by a public service corporation or by the Government." —ALLEN RIPLEY FOOTE, *President of the International Tax Association and Commissioner of the Ohio State Board of Commerce.*

The above is given to impress upon the student's mind the importance of a correct record of

business transactions and the correct classification of accounts, in order that the result obtained by this record may show the true condition of the business. We want the student who completes this course to go into the business world with confidence in his ability to do the work that will be required of him. If his duties are to record transactions, we want him to know how to make this record show correct results, so that no accountant will ever have occasion to criticise his method of recording transactions, or that he may not unintentionally make such a record that he will be guilty of innocent dishonesty. The principles outlined in this set are in accordance with those of modern bookkeepers and accountants, and the student who can follow the instructions given and get the desired results need not fear to accept a position in any office. While he may not be an expert bookkeeper, yet he will have the proper training which will enable him to become an expert.

§ **224. Corporation.** A corporation is defined by the Supreme Court of the United States as "An association of individuals united for some common purpose, and permitted by the law to use a common name, and to change its members without dissolution of the association." This means that the corporation is in reality an artificial person, one created by law. When created and brought into existence by law, it has the same privileges as any citizen governed by the same law.

¶ 1. *Under the Common Law*, two or more persons engaged in a business enterprise (a partnership) could not contract in the firm name, but only in the name of each individual. While this has been greatly changed by the state statutes, yet a partnership is subject to many restrictions in the courts. A corporation being created by law is subject to the laws of the state in which it transacts business, the same as an individual. All its contracts are made under the corporate name, and when it comes into court it is known only by its name, the same as an individual.

A corporation differs from a partnership in the *manner of organization*, *method of conducting the business*, *responsibility of investors*, and the *manner of dissolution*. It agrees in the object for which it is formed—the combination of capital for the mutual benefit of those interested.

§ **225. Manner of Organization.** A partnership is formed by contract. A corporation is created by authority of the laws of the state in which it is organized. The method of procedure for organizing a corporation differs in the various states. In the following, which is the requirement of the state of New York, we have this explanation: "Except as provided in section two-a of this chapter, three or more persons may become a stock corporation for any lawful business purpose or purposes, by making, signing, acknowledging, and filing a certificate which shall contain:

¶ 1. The name of the proposed corporation.

¶ 2. The purpose or purposes for which it is to be formed.

¶ 3. The amount of capital stock, and if any portion be preferred stock, the preferences thereof.

¶ 4. The number of shares of which the capital stock shall consist, the value of which shall not be less than five nor more than one hundred dollars, and the amount of capital not less than five hundred dollars, with which the said corporation will begin business.

¶ 5. The city, village or town in which its principal business office is to be located. If it is to be located in the city of New York, the borough therein in which it is to be located.

¶ 6. Its duration.

¶ 7. The number of its directors, not less than three.

¶ 8. The names and postoffice addresses of the directors for the first year.

¶ 9. The names and postoffice addresses of the subscribers to the subscription list, and a statement of the number of shares of stock which each agrees to take in the corporation."

This requirement is for corporations that are to engage in a mercantile or manufacturing business, and does not include those organized to engage in transportation, banking, education, etc., nor those for charitable purposes.

The certificate must be signed by the three or more persons who make application for the charter, their signature acknowledged by a Notary Public or some county official, and this certificate recorded by the proper county and state official.

§ 226. **Method of Conducting the Business.** The affairs of the partnership are conducted by the partners or someone designated by them. If it is conducted by the partners themselves, certain duties are assigned to each, these being outlined in the agreement. The affairs of a corporation are in charge of officers who are elected by the board of directors. The stockholders (investors) elect the board of directors, each stockholder voting as many votes as he holds shares of stock. As a general rule, the officers are elected from the board of directors, and usually consist of the president, vice-president, secretary and treasurer.

§ 227. **Responsibility of Investors.** Each partner is individually responsible for all the debts of a partnership, whether contracted by him, some other partner, or an agent. If a partnership becomes insolvent, the creditors can collect the entire amount of their indebtedness from any one partner after the partnership property has been disposed of. A stockholder in a corporation is not individually responsible for any debts contracted by the corporation. However, if the corporation becomes insolvent, and the assets do not pay all of the obligations, some states hold each stockholder individually responsible for the value of the shares which he owns; other states relieve him of this responsibility. To illustrate: The Consolidated Manufacturing Company is a corporation capitalized at $50,000.00, consisting of five hundred shares, par value $100.00 each. J. C. Mason owns five shares of this stock. The corporation becomes insolvent, and after all of the property has been sold, there remains an indebtedness of $2,000.00. The creditors could collect from Mr. Mason five five-hundredths of this amount, this being in proportion to the number of shares of stock that he owns. This proposition is not definite, because the different states have imposed different conditions, but serves to illustrate the responsibility of a stockholder in those states where each stockholder is held individually responsible for the debts of the corporation.

§ 228. **Manner of Dissolution.** A partnership continues during the time specified in the contract, unless dissolved by agreement, by decree of court, by the death of a partner, or by the disability of a partner. During the existence of the partnership, neither partner has a right to sell any or all of his interest without the consent of the others interested. Should he sell under protest, this dissolves the partnership, and holds him individually responsible to the other partners for any damage caused them by his act. A corporation continues during the time stated in the charter. The death or legal disability of one or more shareholders does not affect the business of the corporation. Any stockholder may sell his stock without consulting the others (unless restricted in the certificate of stock), and this transfer does not in any way affect the business of the corporation. When transferred on the books of the company (and the secretary must transfer all stock when required to do so by stockholders), the new owner becomes a stockholder with the same rights and privileges as the former one. In other words, the interest or shares in a corporation are considered as personal property, which may be sold without consulting any others interested. On the other hand, an interest in a partnership is a contract, and a partner can not dispose of it unless given permission by the other partners.

Since the acts of a stockholder have no effect on the business of the corporation, and the charter may be renewed any number of times, it is sometimes said that, "A corporation never dies."

§ 229. **Object of Organization.** A partnership and a corporation are both organized for a speculative purpose. Generally, no person cares to assume all the responsibility of a new enterprise, hence combines his capital with that of others, thus distributing the loss or gain that may arise from the investment. As a general rule, a partnership is formed when the amount of the investment is secured, and each one of the investors is taking active part in the business. When a large amount of capital is required, a corporation is formed and the necessary funds are collected by selling the stock. The business is conducted by a board of directors elected by the stockholders, each stockholder being entitled to as many votes as the number of shares he holds. A corporation offers an opportunity for investment of small amounts by those who are not in a position to take active interest in the business. While the same organization could be effected by a partnership, yet each investor would be responsible for the debts created by the partners who had actual charge of the business, which would not be satisfactory.

TERMS PECULIAR TO A CORPORATION.

§ **230. Charter.** The charter is a written document setting forth the facts required by the law, and is the corporation's authority for doing business. It gives the name of the corporation, the amount of the capital stock, location, place of business, nature of the business, time of existence, and such other information as is required by the state law under which it is granted. It must be signed by the required number of charter members; i. e., the persons who make application for the charter. The number of charter members necessary to organize a corporation is governed by the state law, but is usually not less than three.

§ **231. Capital Stock.** The capital stock is the total stock (face value) issued and outstanding. The capital stock mentioned in the charter is the amount of stock that can be issued, but it is not necessary to issue all of this unless required by state law. The capital stock is represented by a specified number of shares of equal value. This value is fixed by the charter members, and must be stated in the charter. It may be one dollar, five dollars, ten dollars, fifty dollars, one hundred dollars, or any other amount that may be selected by the charter members, unless the state law governs the minimum or maximum value of each share. As stated, it is not necessary for all of the shares designated in the charter to be sold and paid for before the corporation begins business. The minimum number of shares to be issued is usually designated by the law that creates the corporation, as it would not be good policy to permit a corporation to begin doing business that had no capital. A corporation that has a capital stock of $100,000.00, with par value of $100.00 per share, would consist of one thousand shares. A corporation that has a capital stock of $1,000,000.00, with par value of $25.00 per share, would consist of forty thousand shares.

§ **232. Capital.** The capital of a corporation or any business is the net value of its assets, after all the liabilities have been paid. The capital stock is the par value of the stock issued, and may be more or less than the capital, depending upon the net value of the assets. The greater the excess in value of the capital over the capital stock, the greater the value of each share; thus, if a corporation with a capital stock of $100,000.00 has a capital (net assets) worth $200,000.00, then each share would be worth double the par value. On the other hand, if the capital (net assets) is only $90,000.00, each share would be worth only 90c on the dollar.

The student must not confuse the capital with the capital stock. He must keep in mind the fact that the *capital stock* is the par value of the shares issued, and the *capital* is the net worth of the business. The value of the capital stock is shown by the *Capital Stock* account, which is the par value of all the shares issued. The value of the capital is represented by the Capital Stock account and Surplus account. This will be shown by these two accounts only at the beginning of each fiscal period.

§ **233. Certificate of Stock.** The certificate of stock is a printed form which is the stockholder's receipt for the money he has invested. It states the number of shares for which he has paid, and the value of each, and is signed by the legally authorized officers, which are usually the president and secretary. The par value of each share and number of shares is shown in the certificate. The real value of the stock certificate will depend upon the dividends paid and the value of the capital.

Stock certificates are bound in book form, each provided with a stub. When a certificate is issued, the same facts are shown on the stub for reference. When the certificate is sold by the stockholder to whom it is issued, and a new stockholder has it transferred on the books, these facts are shown on the stub of the original certificate, also on the stub of the new certificate issued to the new stockholder. The certificate stubs are numbered consecutively, and the account kept with each stockholder in the stock ledger should show the number of the stock certificates which he owns. If a stockholder owns more than one certificate, his account in the stock ledger should show the number and value of each in a separate entry.

§ 234. **Stockholder.** A stockholder in a corporation is one who owns stock in the corporation. As evidence of this ownership, he holds one or more certificates which show the number of shares he owns. It is not necessary (unless provided by state law) for the certificate to be recorded on the books of the corporation, but if the stockholder wishes to enjoy the privileges granted a stockholder, he must have his certificate registered so that the officers of the corporation will know who owns the various shares of stock. This information is especially necessary at the time a dividend is declared. A stockholder does not own any part of the assets of the corporation, but shares with the other stockholders in the distribution of these assets when the corporation is dissolved. If he wishes to dispose of his interest before dissolution, he can do so by selling his stock. The corporation is, itself, a legal entity, and the ownership of the business vests in it, and not in the stockholders.

There are two kinds of stock issued by corporations: *common stock*, and *preferred stock*.

§ 235. **Common Stock.** All stock issued by a corporation is common stock unless otherwise designated. The owners of common stock share in the profits of the corporation in proportion to the number of shares they own. Thus, if a person owns one hundred shares in a corporation of one thousand shares, he will be entitled to one-tenth of the profits set aside by the board of directors for distribution. He receives the same proportionate part of the profit as the other stockholders, and does not enjoy any special privileges.

§ 236. **Preferred Stock.** Preferred stock is issued with a contract that a fixed per cent will be paid out of the profit as a dividend, and this is paid before the holders of common stock receive any dividend. In case the profit is not sufficient to pay this dividend, the directors may declare only a part of it, but the claim of the preferred stockholders for the remainder of the dividend not declared, cumulates and the full amount of these cumulated dividends must be paid before any dividends are paid to the holders of common stock. Non-cumulative preferred stock may be issued, in which case preferred stockholders would receive only that part of the fixed dividend which was earned, and if, at any time, they fall short of the full amount of the preferential dividend, the amount not paid is a loss to them.

¶ 1. *The Value of Any Stock* depends upon the dividends paid; hence, it is possible for the common stock to become more valuable than the preferred stock. If there is a large profit, and the amount set aside by the board of directors as a dividend pays the preferred stockholders their fixed dividend, and the common stockholders a larger dividend than this, the common stock becomes more valuable. At the beginning of the business, the preferred stock offers the more attractive investment, because the amount of dividend is fixed and the purchaser knows that he is going to receive a certain per cent on the money invested.

The two classes of stock are issued by authority of the law which creates the corporation, and is subject to the conditions imposed by the laws of the state under which it is organized. The above explanation is given to show the difference between the two kinds of stock issued by a corporation, and can not be accepted as absolute in every state on account of the special state laws.

§ 237. **Dividend.** The dividend is that part of the profit which is distributed among the stockholders. As a general rule, all of the profit is not distributed, because it might impair the working capital. When the statement of the business is made at the close of the fiscal period, the amount of property to be distributed is designated, and this is distributed among the stockholders. As explained in § 235 and § 236, this dividend is divided among the stockholders, according to the kind of stock they hold. If all the stock is common, then the dividend is divided equally among the stockholders, in proportion to the value of stock each holds. If any stock is preferred, the amount of the fixed dividend to be paid preferred stockholders is paid to them, and the remainder is distributed among the common stockholders.

§ 238. **Assessment.** When the business has been conducted at a loss, it is sometimes necessary to secure additional funds to carry on the business. This is done by levying on each stockholder. This is the reverse of a dividend, but is paid in the same proportion, that is, each stockholder pays the proportionate part of the assessment according to the number of shares which he owns. Assessments are levied by authority of the board of directors. As stated, each stockholder pays his part unless he holds stock that is non-assessable. This class of stock is sometimes issued in order to insure the stockholder that he will not have to pay out money to support the business.

§ 239. **Surplus Fund.** The amount of dividends is usually determined by the board of directors. It is not the best policy to pay out all the profit in dividends. However, the conditions under which the corporation is working will determine this. If any part of the profit is not distributed, it is carried as a surplus fund, and an account must be kept with this. The Surplus account may also be used for other purposes, as will be explained later.

§ 240. **Bonds.** A bond is a long time note, arranged in a special form. They are usually issued in denominations of one hundred, five hundred or one thousand dollars, and secured by a mortgage on real estate or personal property, which is held in trust by a trustee. Bonds are issued by corporations to secure capital with which to operate the business. Bonds may also be issued by a public corporation, in which case, they are secured by the assets of the corporation.

§ 241. **Sinking Fund.** This is a special fund created with the view of providing money with which to pay bonds when they fall due. If a corporation issues bonds for twenty thousand dollars, which are payable in ten years, they should provide a sinking fund, and at the end of each year take two thousand dollars from the profits and set it aside as a sinking fund, so that when the bonds fall due they will have the money to pay them. The amount set aside as a sinking fund should be taken from the profits of the corporation, and considered as a separate asset.

§ 242. **Treasury Stock.** Treasury stock is capital stock of a corporation that has been issued and afterwards acquired by the corporation. A corporation has the right to purchase its own capital stock, unless the state law under which it is organized forbids this. If for any reason the corporation does purchase its own stock, this becomes an asset, and is held in the treasury until disposed of. Unissued stock is not treasury stock, though sometimes it is erroneously considered as such. No matter what amount of capital stock is stated in the charter, its capital stock is the par value of the stock sold and issued. Stock that is not issued can not be an asset of the corporation, because it has no real value. The fact that all the stock authorized by the charter has not been issued, does not enable the corporation to call this unissued stock an asset, and it should never be considered as such. Treasury stock is illustrated by the following: A corporation organized for the purpose of conducting a wholesale grocery business requires each employee to purchase stock, with the understanding, that if at any time he wishes to discontinue his services, this stock will be purchased from him. An employee who holds five shares hands in his resignation; the corporation pays him his salary, also pays him for his stock as per agreement. This stock is held in the treasury to be disposed of to the employee who takes his place or to any other person who wishes to purchase it.

§ 243. **Changing from a Partnership to a Corporation.** When it is desired to incorporate a business that has been conducted as a partnership, it is necessary to close the books. As a general rule, this change is made at the regular closing time, which would be the close of the fiscal period. After the statements of the business have been made, the books closed and the charter obtained, stock is issued to the partners as per agreement. If, for any reason, the partners are given stock, the par value of which is more than the net capital, this excess being considered the good will of the business, it must be represented by a Good Will account. The entries required for making the change depend entirely upon the conditions under which the stock is issued. The Capital account of each partner must be closed, and the capital of the corporation shown in the Capital Stock account. The student will better understand the method of making the change after he has made the entry required at the beginning of this set.

QUESTIONS.

1. Define a corporation. (§ 224.)
2. Under the common law how could partners contract? (¶ 1.)
3. To what extent has state laws changed this? (¶ 1.)
4. Distinguish between a partnership and a corporation.
5. Describe the manner of organizing a corporation. (§ 225.)
6. How many persons does the law require for the formation of a corporation?
7. Name some of the conditions that are usually included in a certificate of corporation. (¶¶ 1—9.)
8. How are the affairs of a partnership conducted? A corporation? (§ 226.)
9. To what extent is each partner personally responsible for the debts of a partnership? (§ 227.)
10. To what extent is each stockholder in a corporation personally responsible for the debts of a corporation? (§ 227.)
11. How is a partnership dissolved? A corporation? (§ 228.)
12. Why is it often said that "A corporation never dies?" (§ 228.)
13. What is the object of a partnership? A corporation? (§ 229.)
14. Define the charter of a corporation. (§ 230.)
15. What is the capital stock? (§ 231.)
16. What is the capital? (§ 232.)
17. When are the capital and the capital stock the same?
18. What is a certificate of stock? (§ 233.)
19. Who is a stockholder in a corporation? (§ 234.)
20. Define common stock. (§ 235.)
21. Define preferred stock. (§ 236.)
22. Which is the better investment?
23. What is a dividend as applied to a corporation? (§ 237.)
24. What is an assessment as applied to a corporation? (§ 238.)
25. Which is preferable? Why?
26. Define surplus fund. (§ 239.)
27. Define a bond. (§ 240.)
28. Define sinking fund. (§ 241.)
29. Define treasury stock. (§ 242.)
30. Describe the method of changing the books of a partnership to a corporation. (§ 243.)

ACCOUNTS PECULIAR TO A CORPORATION.

§ **244. With Few Exceptions,** the same accounts kept in a partnership will be kept in a corporation. The only real difference between the two, aside from the nature of the business, is the manner of keeping the account with the investment, and the distribution of the profits. Capital Stock, Surplus Fund, Dividend, and Treasury Stock are the principal accounts required.

CAPITAL STOCK ACCOUNT.

§ **245. The Object of this Account** is to show the investment. It represents the same in the corporation as the Capital account of the partners does in a partnership. The only difference is that no part of the profit is closed into this account, unless additional stock is issued for it. If both common and preferred stock are issued, it is necessary to keep two capital stock accounts, one with the former and the other with the latter. Each would be debited and credited the same.

Debit the Capital Stock Account:

¶ 1. With the par value of stock retired.

Credit the Capital Stock Account:

¶ 2. With the par value of stock issued and sold.

¶ 3. *The Balance of this Account* should represent the capital stock of the corporation, which is the par value of stock issued and outstanding. It appears on the Financial statement, as one of the liabilities of the corporation, after all other obligations have been listed.

¶ 4. *To Close the Capital Stock Account.* This account is not closed unless it is desired to bring the balance down or transfer it to a new page. It is ruled with single and double red lines, footed with black ink, and the balance entered in black ink on the credit side below the ruled lines or on a new page.

Capital Stock

					191				
					July	2		J.1	40000
					Aug	1		J.3	1000
					Sept	1		CJ.1	9000

Illustration No. 94. Capital Stock Account.

SURPLUS ACCOUNT.

§ 246. **The Object of this Account** is to show the amount of undivided profit, the amount of the loss, and the adjustment for any special profits or losses that may occur.

In a partnership, the profit or loss is closed into each of the partner's Capital or Personal accounts. In a corporation, the profit is not closed into the Capital Stock account, but that part to be distributed as a dividend is closed into the Dividend account, and the balance of undivided profits is closed into the Surplus account. If desired, a special account may be kept with Undivided Profits, in which case the Surplus account would only take care of the special entries required in adjusting profits or losses that occur during the fiscal period.

Debit the Surplus Account:

¶ 1. With any adjustment during the fiscal period, which diminishes the profit of the preceding period.

¶ 2. With any special loss that may occur during the current fiscal period.

¶ 3. At the close of each fiscal period with the net loss as shown by the debit balance of the Profit and Loss account.

Credit the Surplus Account:

¶ 4. With any adjustment during the fiscal period, which increases the profit of the preceding period.

¶ 5. With any special profit that may occur during the current fiscal period.

¶ 6. At the close of each fiscal period with that part of the profit which is not to be divided among the stockholders.

¶ 7. *The Balance of this Account,* at the close of the fiscal period, represents the undivided profits unless a special account is kept with Undivided Profits, in which case the balance would represent the special losses or gains that occurred during the fiscal period. It appears on both the Financial, and Profit and Loss statements, and is used in closing each. The difference between the total resources and total liabilities is the total undivided profits. The difference between this and the surplus, or undivided profits of the preceding fiscal period or periods, is the profit for the current fiscal period.

¶ 8. *To Close the Surplus Account.* This account is not closed unless it balances, or the balance is brought down on the same page, or transferred to a new page. If it balances, it is ruled with single and double red lines and the totals entered in black ink. If it is made to balance, the difference is entered on the smaller side in red ink, the account ruled with single and double red lines, footed in black ink and the balance entered in black ink on the opposite side from the red ink entry, either on the same page or a new page.

Surplus Account

191						191					
Aug	6		J.3	21		July	7		J.1	27	50
	31		6	115	99	Aug	1		3	90	
							31		8	19	49
				136	99					136	99
						Aug	31	(Undivided profits)		1982	46
						Sept	1		C.J.1	47	50

Illustration No. 95. Surplus Account.

DIVIDEND ACCOUNT.

§ 247. **The Object of this Account** is to show the amount of profit divided among the stockholders. After the Financial, and Profit and Loss statements have been made, and the books closed, the Surplus account shows the amount of undivided profit. The board of directors then decide upon the amount of profit to be divided among the stockholders. This is usually some per cent of the par value of the stock. A dividend of 5 per cent would mean $5.00 on each share, if the par value of a share was $100.00; a dividend of 10 per cent would mean $2.50 on each share, if the par value of the stock was $25.00. A separate account should be opened for each dividend and designated by number. Thus, Dividend No. 1, represents the first; Dividend No. 2, the second, etc.

Debit the Dividend Account:

¶ 1. For dividends paid.

Credit the Dividend Account:

¶ 2. For the amount of the dividend declared by the board of directors for which the Surplus account is debited.

¶ 3. *The Difference between the two sides of this Account* is the amount of dividends not paid. As a general rule, the dividend checks are issued for all dividends paid at the time they are declared by the board of directors, in which case, this account will balance because it is credited with the total amount of the dividend and charged with the dividend checks. If, for any reason, some of the stockholders do not receive their dividend checks, the balance of this account will show the amount of dividend yet to be distributed.

¶ 4. *To Close the Dividend Account.* This account is closed when it balances, which will be after all the dividend set apart to be divided among the stockholders has been paid. As explained, this is usually done at once, hence the account is opened and closed at practically the same time and remains closed until the end of the next fiscal period.

Dividend No. 1.

191 Sept	1		CJ1	1225	191 Aug	31		J8	1225

Illustration No. 96. Dividend Account.

TREASURY STOCK ACCOUNT.

§ **248. The Object of this Account** is to show the value of its own stock purchased by the corporation. This account is not opened unless the corporation purchases its own stock or this is donated by some stockholder to the corporation, and should never represent any part of the capital stock which has not been issued.

Debit the Treasury Stock Account:

¶ 1. For the par value of its own stock purchased by the corporation.

¶ 2. For the par value of stock donated to the treasury by a stockholder. If the value of this is below par this difference should be shown by a special account.

Credit the Treasury Stock Account:

¶ 3. For the par value of treasury stock sold. If it is sold above par, the difference is credited to the Surplus account.

¶ 4. *The Balance of this Account* shows the par value of its own stock held in the treasury of the corporation. It is an asset and must appear on the Financial statement after all the active resources and fixed investments have been listed. If, for any reason, the treasury stock is not worth par value, this discrepancy must be deducted from the value of the asset and shown in a negative account.

¶ 5. *To Close the Treasury Stock Account.* This account is not closed until all of the stock has been sold, unless it is desired to balance the account. If all the stock has been sold, the account is ruled with single and double red lines and footed in black ink. If it is made to balance, the balance is entered on the credit side in red ink, the account ruled with single and double red lines, footed in black ink, and the balance brought down on the debit side, or transferred to a new page in black ink.

NOTE—Many states do not permit a corporation to purchase its own stock. If for any reason it becomes necessary for the corporation to do this, such stock must be disposed of within a limited time. The above explanation of the treasury stock and Treasury Stock account is given subject to the laws of the various states. There are also other methods of keeping the Treasury Stock account. The one described is considered best practice by leading accountants.

OTHER ACCOUNTS INTRODUCED IN JULY.

§ **249. Controlling Accounts.** The object of a controlling account is to show, in total, the facts shown on a subsidiary ledger. It is kept in the general ledger, and may represent a ledger in which accounts are kept with creditors, customers, consignments, shipments, etc. It is best to keep a controlling account with each subsidiary ledger, but one controlling account may represent two or more ledgers if desired. It is necessary to have a special column in each book of original entry for each controlling account. If there is only an occasional entry in any book that belongs to the controlling account, it is not necessary to have a special column, but each entry may be posted twice, first to the subsidiary ledger, and second to the controlling account. The accounts in the subsidiary ledger are debited or credited with the various amounts entered in these columns, and the

controlling account debited or credited with the total of each column at the end of the month. Controlling accounts are essential in modern accounting, and offer many advantages. One of the chief advantages is the time saved in taking the Trial Balance. This is taken from the general ledger, and when that ledger is proved to be in balance, each subsidiary ledger is proved by the controlling account in the general ledger. This permits the Trial Balance to be taken in parts, and is a great assistance if an error is made, and it is necessary to check the posting. To illustrate: The bookkeeper has on his ledger twelve hundred open accounts; one hundred of these are in the general ledger; two hundred in the purchases ledger, and nine hundred in the sales ledger. He has one controlling account in his general ledger with Purchases Ledger and another account with Sales Ledger. When he takes his general Trial Balance, there is an error of ten cents. To discover this, it is necessary to check the posting to the general ledger. After this error is discovered, he proves the purchases ledger. This is done by ascertaining that the total of the balances due creditors is the same as the difference of the Purchases Ledger account in the general ledger. He proves the sales ledger to be correct in the same manner, comparing the total of the balances due from customers with the balance of the Sales Ledger account. He then knows that all of his work is correct. If he had not used the controlling accounts, it would have been necessary to check the posting to all three of the ledgers in order to discover the ten cents error, that is, if it was not discovered before the checking was completed.

PURCHASES LEDGER ACCOUNT.

§ 250. The Object of this Account is to keep a record, in total, of the amounts due creditors as shown by the various accounts in the purchases ledger. It is a controlling account (§ 249). and is kept in the general ledger.

Debit the Purchases Ledger Account:

¶ 1. For the total of the purchases ledger column on the credit side of the cash book, at the end of the month.

¶ 2. For the total of the purchases ledger column in the journal, at the end of the month.

¶ 3. For the total of the purchases ledger column in the notes payable book, at the end of the month, if this book is used as a book of original entry.

Credit the Purchases Ledger Account:

¶ 4. With the total purchases as shown by the purchases book. If more than one account is kept with merchandise on account of different departments, the Purchases Ledger account is credited with the same amount as the various departments are debited, which is the same as the total purchases shown by the purchases book.

¶ 5. *The Balance of this Account* shows the amount due creditors. If the general Trial Balance is in balance, this difference must be correct. The purchases ledger is proved by adding the various amounts due creditors, which must be the same as the difference of the Purchases Ledger account. This difference is a liability, and appears as one of the liabilities on the Financial statement, in the same manner as individual personal accounts.

¶ 6. *To Close the Purchases Ledger Account.* This account is not closed until it balances, unless it is desired to make the account balance. If it balances, it is ruled with single and double red lines and footed in black ink. If it is made to balance, the difference is entered on the debit side in red ink, the account ruled with single and double red lines, footed in black ink, and the balance brought down on the same page, or transferred to a new page on the credit side in black ink.

NOTE—Some bookkeepers prefer ruling this account at the end of each month because the balance represents the total of the various balances shown in the purchases ledger. This is very good practice, especially where there are a number of debits and credits during the month. If the account is closed at the end of the month, the balance should not be brought down until after the purchases ledger has been proved so that there will be no possible error in closing the account.

Purchases Ledger

191						191					
July	31		C.5	1244	36	July	2		29	18469	47
				5806	10		31		P.	14065	84
			J.2	498	62						
			N.P.	1479	56						

Illustration No. 97. Purchases Ledger Account.

SALES LEDGER ACCOUNT.

§ **251. The Object of this Account** is to keep a record, in total, of the various amounts due from customers as shown by the accounts in the sales ledger. It is a controlling account (§ 249), and must appear in the general ledger.

Debit the Sales Ledger Account:

¶ 1. At the end of each month with the total of the sales book, whether this represents the sales from one department or a number of departments.

Credit the Sales Ledger Account:

¶ 2. With the total of the sales ledger column on the debit side of the cash book, at the end of the month.

¶ 3. With the total of the sales ledger column in the journal (if one is kept), at the end of the month.

¶ 4. With the total of the goods returned book, at the end of the month.

¶ 5. With the total of the sales ledger column in the notes receivable book, at the end of the month, if this book is used as a book of original entry.

¶ 6. With the total of the sales ledger column in any other book of original entry, at the end of the month.

¶ 7. *The Balance of this Account* shows the amounts due from customers, and must be the same as the total of the various balances shown in the sales ledger. It is a resource, and is listed with the resources on the Financial statement. After the general Trial Balance is made, and proved to be correct, the various balances shown by the sales ledger are proved by comparing the total with the difference of this account.

¶ 8. *To Close the Sales Ledger Account.* This account is not closed until it balances, unless it is desired to bring the balance down on the same page or transfer it to a new page. If it balances, it is ruled with single and double red lines and footed in black ink. If it is made to balance, the difference is entered on the credit side in red ink, the account ruled with single and double red lines, footed in black ink and the balance brought down on the same page, or transferred to a new page on the debit side with black ink.

NOTE.—Some bookkeepers prefer to close this account at the end of each month. This is explained in the note under § 250.

Sales Ledger

191 July	2		30	11289	46	191 July	31		C.4	69	32
	19		J.2	25	48				C.4	5856	24
	31		S.R.	6073	98				N.R.	1523	91
									G.R.12	166	76

Illustration No. 98. Sales Ledger Account.

GOOD WILL ACCOUNT.

§ 252. **The Object of this Account** is to show the value of good will that is considered as an asset of the business. Good will may be defined as a special value attached to a particular business, in addition to the actual value of the property used in conducting the business. This may be brought about through the value of the trade mark or the reputation or skill of the organization, the reputation of the goods sold, or any peculiar advantages of the business on account of location, etc. It may also include patents, copyrights, etc. To illustrate: Davis Bros. have been conducting a retail clothing business at the corner of Fourth and Main streets for a number of years, and have established a good trade, brought about through judicious advertising and the proper treatment of their customers. They decide to incorporate and sell stock. It is very evident that they would not issue stock for the actual value of the property belonging to the business, and thus lose all the profits which are being derived from the business having a good patronage. The estimated value of this would be *Good Will.* This value must be determined by Davis Bros., and those to whom the stock is to be sold.

The Good Will account should never be used to offset over-capitalization, and to do this, is not only poor business policy, but might be considered dishonesty. While the bookkeeper is supposed to follow the instructions of those who employ him, we would suggest to the student, that if he should ever assume the position of bookkeeper for a firm that wanted to over-capitalize and open up a Good Will account to counter-balance this over-capitalization, that he resign at once. The position is one not to be desired, and a business conducted by men who use such methods is sure to meet failure sooner or later. "Honesty is the best policy," and the bookkeeper should always know that the entries he is required to make are along the lines of honesty and justice.

Debit the Good Will Account:

¶ 1. For the value of the good will acquired when a change in ownership is made.

Credit the Good Will Account

¶ 2. This account is not credited unless those interested in the business wish to close it. If they do, it is credited with a part of the profit each year, or a sufficient amount of the profit for one year to balance it.

¶ 3. *The Balance of this Account* (debit side) is a resource, and is listed among the resources on the financial statement. It would appear after all the active resources and fixed investments had been listed.

¶ 4. *To Close the Good Will Account.* As stated, this account is not closed unless those inter-

ested in the business wish to close it. It is not good business policy to close it, as it is one of the values of the business and would have to be considered if there should be any change in ownership at any time. It is best to let the account remain debited with the value of the good will. If those who assume charge of the business after the Good Will account is opened, continue to conduct it with a good business policy, the value of the good will would not decrease and might increase, depending entirely upon the success of the business.

QUESTIONS.

1. What accounts are necessary in a corporation set of books? (§ 244.)
2. Aside from these, is there any difference between the accounts in a partnership or corporation set of books, if the nature of the business is the same? (§ 244.)
3. Define the Capital Stock account. (§ 245.)
4. For what is it debited? Credited? (¶¶ 1—2.)
5. What does the difference show?
6. Describe the method of closing the Capital Stock account.
7. Define the Surplus account. (§ 246.)
8. Name the three debits. (¶¶ 1—3.)
9. Name the two credits. (¶¶ 4, 5.)
10. What does the balance show?
11. When and how is the Surplus account closed?
12. Define the Dividend account. (§ 247.)
13. Name the debits and credits.
14. What does the difference show?
15. When and how is the Dividend account closed?
16. Define the Treasury Stock account. (§ 248.)
17. Give the two debits and one credit. (¶¶ 1—3.)
18. Define a controlling account. (§ 249.)
19. Name some of the advantages of a controlling account.
20. Define the Purchases Ledger account. (§250.)
21. Name the special debits and credits. (¶¶ 1—4.)
22. What does the balance show?
23. When and how is the account closed?
24. Is it best to rule the account and bring the balance down at the end of each month? (§ 250, Note.)
25. Define the Sales Ledger account. ((§ 251.)
26. Name the special debit and five special credits. (¶¶ 1—6.)
27. What does the balance show?
28. When and how is the account closed?
29. Define good will. (§ 252.)
30. What is the object of the Good Will account? (§ 252.)
31. For what is it debited and credited? (¶¶ 1, 2.)

SPECIAL ACCOUNTS WITH SELLING EXPENSE.

§ **253. As Explained** in § 170, the object of the Selling Expense account is to show the cost of selling merchandise. While one account may represent the total cost, yet it is best practice to keep several accounts in order that the proper units of information may be obtained. There are a number of accounts that can be kept, but it is not best to keep too many, as the cost of keeping them will more than counter-balance the advantage gained. The most important accounts are: Warehouse Expense, Delivery Expense, Advertising, Traveling Expense, and Salaries in Selling Department.

WAREHOUSE EXPENSE ACCOUNT.

§ **254. The Object of this Account** is to show the cost of maintaining the warehouse or shipping room. The exact point at which the cost of merchandise to be sold ends, and the selling expense begins, is open to argument. The question must be decided by the nature of the business, and the desire of those interested in the business. The cost of merchandise is best defined as the invoice

price, plus transportation cost, drayage cost, and the cost of preparing the goods for sale. If this definition is accepted, the selling expense would begin with the salary of the clerk or salesman who made the sale, and would include the cost of preparing the goods for shipment, the delivery to the customer's place of business, or the transportation company, if this is not in the same city. As a general rule, goods are ready for sale when they are received in the warehouse, and in many lines the original packages received from the factory are re-shipped to the customer. This is especially true in canned goods, fruits, vegetables, soaps, flour, etc. In order to avoid too many accounts, it is best to consider the expense of maintaining the warehouse as a part of the selling cost. If for any reason, a part of this expense belongs to the cost of merchandise, this can be adjusted by a journal entry once each month, or at the close of the fiscal period. With few exceptions, the principal cost in the warehouse is brought about by preparing goods for shipment, hence the reason for recommending that this account be considered a part of the selling expense. If considerable work is required on the merchandise after it is received from the freight station, the business assumes the nature of manufacturing, and the charges should be added to the manufacturing cost, rather than to the original cost of the merchandise.

Debit the Warehouse Expense Account:

¶ 1. For all amounts paid employees in the warehouse or shipping room.

¶ 2. For all supplies purchased for use in the shipping department, such as wrapping paper, twine, marking ink, shipping cases, nails, etc.

Credit the Warehouse Expense Account:

¶ 3. For any amounts received that decrease the warehouse expense.

¶ 4. For any amounts received from the sale of property, the cost of which was charged to this account.

¶ 5. *The Difference between the two sides of this Account* shows the cost of maintaining the warehouse or shipping room, and is one of the costs of selling the merchandise. It is listed with the selling expense on the Profit and Loss statement.

Warehouse Expense

191						191					
July	14		63	40		Aug.	31	Sund Res Inv	J7	63	75
	27		5	97	50				8	258	75
	31		5	47	50						
Aug	7		7	1	25						
	8		7	24	75						
	15		7	54							
	31		9	42	50						
			J6	15							
				322	50					322	50
Sept	1	Mdy. cases, etc.	J8	63	75						

Illustration No. 99. Warehouse Expense Account.

¶ 6. *To Close the Warehouse Expense Account.* After the Financial, Trading, and Profit and Loss statements have been made and proved to be correct, unless a special Selling Expense or Sales Expense Account is kept in the ledger, this account is closed by the journal entry that closes the accounts affecting the Profit and Loss statement into the Profit and Loss account. After the journal entry has been posted, the account is ruled with single and double red lines and footed in black ink.

NOTE—At the close of the fiscal period, there may be some property on hand the value of which was charged to this account. If so, the Sundry Resource Inventories account is debited, and the Warehouse Expense account credited, when the journal entries required at the close of the fiscal period are made. Where a large quantity of supplies are purchased for use in the warehouse, it is best to keep a separate account designated as "Warehouse Supplies." This account would be debited and credited with the inventory at the close of the fiscal period, the difference being charged to the Warehouse Expense account, or Selling Expense account.

DELIVERY EXPENSE ACCOUNT.

§ 255. **The Object of this Account** is to show the cost of delivering goods, either to the customer's place of business or to the freight station. The account also includes freight on goods sold, where the delivery was to be made f. o. b. the customer's freight station. It is a part of the selling expense.

Debit the Delivery Expense Account:

¶ 1. For all amounts paid to drivers and others who assist in delivering merchandise.

¶ 2. For all amounts paid for maintaining the delivery equipment, such as feed for horses, livery bill, repairs on delivery equipment, etc.

¶ 3. For all amounts paid for transportation charges on merchandise, which was sold f. o. b. the customer's freight station.

¶ 4. For any other expenses connected with the delivery of goods, which includes insurance on delivery equipment, depreciation of delivery equipment, etc.

Credit the Delivery Expense Account:

¶ 5. For any amounts received that decrease the delivery expense.

¶ 6. For amounts received from the sale of any property, the cost of which was charged to this account.

¶ 7. *The Difference between the two sides of this Account* shows the cost of delivering goods, and is a part of the selling expense. It appears on the Profit and Loss statement, as a part of the selling expense.

¶ 8. *To Close the Delivery Expense Account.* This account is closed by the journal entry that closes the accounts affecting the Profit and Loss statement into the Profit and Loss account. After this entry is posted, the account is ruled with single and double red lines and the footings entered in black ink.

ADVERTISING ACCOUNT.

§ 256. **The Object of this Account** is to keep a record of amounts expended for advertising. This is a part of the selling expense, and includes the amounts paid for newspaper advertising, magazine advertising, advertising novelties, etc.

Debit the Advertising Account:

¶ 1. For all amounts paid for advertising.
¶ 2. For all property purchased to be used for advertising.

Credit the Advertising Account:

¶ 3. For any amounts received that serve to decrease the advertising expense.
¶ 4. For any amounts received for the sale of property, the cost of which was charged to this account.

¶ 5. *The Difference between the two sides of this Account* shows the net cost of advertising, and is a part of the selling expense. It appears on the Profit and Loss statement among the operating expenses.

¶ 6. *To Close the Advertising Account.* This account is closed by the journal entry made to close the accounts affecting the Profit and Loss statement into the Profit and Loss account. After the entry is posted, the account will balance and is ruled with single and double red lines and the footings entered in black ink.

Advertising

191						191					
July	2		13	145	16	July	2		13	96	75
	7		J1	27	50	Aug	31	Sund Res. Inv	J7	119	65
			C3	57					8	171	76
Aug	8		7	116	05						
	24		9	42	45						
				388	16					388	16
Sept.	1	Advertising matter	J8	119	65						

Illustration No. 100. Advertising Account.

TRAVELING EXPENSE ACCOUNT.

§ 257. **This Account is Explained** in § 216, and its use was illustrated in the preceding set. It is mentioned here because it is a part of the selling expense, and should be considered as such. As explained, it is debited (¶ 1) for the salaries of traveling men; (¶ 2) for traveling expenses, such as hotel bills, transportation, etc., of traveling men; and credited, (¶ 3) for any amounts received that decrease the cost of the account.

The difference between the two sides of this account shows the net amount paid to traveling men. A special account is necessary in order to estimate the cost of selling goods, and the salary of each traveling man is fixed on the net profit he produces the business.

SALARIES IN SELLING DEPARTMENT ACCOUNT.

§ 258. **The Object of this Account** is to show amounts paid employees in the selling department. When other special accounts are kept with the cost of selling merchandise, it is necessary to keep this account.

Debit Salaries in Selling Department Account:

¶ 1. For all salaries of employees in the selling department, which includes salaries paid the credit man, clerks, bill clerks, shipping clerks, etc.

Credit Salaries in Selling Department Account:

¶ 2. For any amounts received that reduce the charges to this account.

¶ 3. *The Difference between the two sides of this Account* shows the net amount paid employees in the selling department, and is used in connection with the other accounts showing the cost of selling merchandise, when the Profit and Loss statement is made at the close of the fiscal period.

¶ 4. *To Close the Salaries in the Selling Department Account.* Unless a special Selling Expense or Sales Expense account is kept in the ledger, and the various accounts showing the cost of selling goods closed into it, this account is closed by the journal entry to close the profit or loss accounts into the Profit and Loss account at the end of the fiscal period. When this entry is posted, the account will balance and is ruled with single and double red lines and footed in black ink. If only one entry appears on each side, double lines may be used as explained.

FREIGHT OUT ACCOUNT.

§ 259. **The Object of this Account** is to keep a record of all freight and express charges on goods sold customers and delivered f. o. b. their freight station. It is a part of the selling cost for the same reason as delivery expense. The inattentative student is apt to confuse this account with that of Freight In. He must keep in mind the fact that all freight or express charges paid on goods purchased, add to the cost of goods purchased, and is charged to the Freight In account; and that all freight or express on goods shipped to customers increases the selling expense, and is charged to the Freight Out account.

Debit the Freight Out Account:

¶ 1. For all amounts paid for freight or express on goods shipped to a customer f. o. b. his freight station.

¶ 2. For all amounts credited to a customer for freight or express charges which he pays and charges to our account.

Credit the Freight Out Account:

¶ 3. For any amounts received that reduce the charges, such as rebates on freight charges, express, etc.

¶ 4. *The Difference between the two sides of this Account* shows the net amount paid to transportation companies for delivering goods to customers, and is a part of the selling expense. It is listed with the other selling expense accounts on the Profit and Loss statement.

¶ 5. *To Close the Freight Out Account.* This account is closed by the journal entry, which is made to close the Profit or Loss accounts into the Profit and Loss account. When this entry has been posted, the account will balance, and is ruled with single and double red lines and footed in black ink.

OTHER ACCOUNTS USED IN THIS SET.

§ **260. The Following Accounts** which have been explained in preceding sets are used: Purchases (§ 154); Sales (§ 155); Freight In (§ 156); Inventory (§ 157); Purchases Discount (§ 159); Sales Discount (§ 160); Office Equipment (§ 162); Reserve for Depreciation of Office Equipment (§ 163); Store Fixtures (§ 164); Reserve for Depreciation of Store Fixtures (§ 165); Delivery Equipment (§ 166); Reserve for Depreciation of Delivery Equipment (§ 167); General Administrative Expense (§ 169); Insurance (§ 171); Sundry Resource Inventories (§ 194); Sundry Liability Inventories (§ 196). Reserve for Bad Debts (§ 213).

QUESTIONS.

1. Define the General Administrative Expense account. (§ 169.)
2. Define Selling Expense account. (§ 170.)
3. What special accounts may be kept with selling expense? (§ 253.)
4. Define warehouse expense. (§ 254.)
5. When is warehouse expense a part of the cost of merchandise? (§ 254.)
6. When is it a part of the selling expense cost? (§ 254.)
7. What is the object of the Warehouse Expense account? (§ 254.)
8. For what is it debited and credited? (¶¶ 1—4.)
9. If one account is kept with warehouse expense, and a part of this expense belongs to the cost of goods purchased and the other part to the cost of selling, when and how are these costs adjusted? (§ 254.)
10. What does the difference of Warehouse Expense account show? (§ 254, ¶ 5.)
11. When and how is it closed? (§ 254, ¶ 6.)
12. What is the object of the Delivery Expense account? (§ 255.)
13. For what is it debited and credited? (¶¶ 1—6.)
14. What does the difference of the Delivery Expense account show? (§ 255, ¶ 7.)
15. When and how is it closed? (§ 255, ¶ 8.)
16. What is the object of the Advertising account? (§ 256.)
17. For what is it debited and credited? (¶¶ 1—4.)
18. What does the difference of the Advertising account show? (§ 256, ¶ 5.)
19. When and how is the account closed? (§ 256, ¶ 6.)
20. What is the object of the Traveling Expense account? (§§ 216, 257.)
21. For what is it debited and credited? (§ 257, ¶¶ 1—3.)
22. What does the difference show? (§ 257.)
23. When and how is it closed? (§ 257.)
24. Why is it necessary to keep an account with salaries paid employees in the selling department? (§ 258.)
25. What six accounts usually represent the purchases and sales of merchandise? (§§ 153, 154—160.)
26. Why is it best to keep special accounts with property purchased for use in the business? (§ 161.)
27. What three accounts are usually used? (§§ 162, 164, and 166.)
28. Why is it necessary to keep a Reserve for Depreciation with each fixed investment account? (§ 163.)
29. Define the Insurance account. (§ 171.)
30. Distinguish between Sundry Resource Inventories and Sundry Liability Inventories accounts, and explain when these accounts are opened up, and how they are closed. (§§ 194, 196.)

BLANK BOOKS.

In the preceding set the student has used only four books of original entry—the journal, cash book, sales book and purchases book. In this set he will have seven books of original entry, the four mentioned and the notes receivable, notes payable, and goods returned book. All credit sales will be recorded in the sales book, credit purchases in the purchases book, cash received and paid in the cash book, notes received or drafts accepted by customers in the notes receivable book, notes signed or drafts accepted by the business in the notes payable book, and goods returned by customers in the goods returned book. All other transactions will be recorded in the journal.

§ 261. Journal. This book is ruled with three money columns, two for debits and one for credits. By comparing illustration No. 101 with the journal he is to use, the student will note that the first column is for General Ledger, Dr., the second column, Purchases Ledger, Dr., and the third column, General Ledger, Cr. If a transaction affects an account which appears in the purchases ledger, the debit amount is entered in the second column and the credit amount in the third column. If the accounts affected are all in the general ledger, the debit amount or amounts are entered in the first column and the credit amount or amounts in the third column. When a page in the journal is full the three columns are added. If the total of the two debit columns equals the total of the credit column, the entries are correct and the totals are forwarded to the top of the next page. At the end of the month, the total of the second or purchases ledger column is posted to the debit side of the Purchases Ledger account in the general ledger. The various amounts are posted to the debit or credit side of the proper accounts at the time the posting is done. If the account is in the purchases ledger, the amount is entered in the second column, hence posted to that ledger. After this is done, the total of the second column will equal the debits posted to the various accounts in the purchases ledger, hence the reason for posting this total to the debit side of the Purchases Ledger account. The balance of the Purchases Ledger account must equal the sum of all the accounts in the purchases ledger.

§ 262. Sales Book. A correct record of credit sales is absolutely necessary. This requires more care than any other work in an office, because of errors that may occur in making the record. Many wholesale houses provide special order blanks and require each salesman, whether he is in the house or on the road, to enter the order which he takes from a customer on this. This order is then given to the stock clerks to assemble the goods, and goes with the goods to the shipping clerk to be shipped. After shipment has been made, the order is returned to the office and an invoice made by the bill clerk; thus the correct record of goods sold is used by the various clerks and as a final record of the sale. This avoids the many mistakes that might be made in copying the sales.

In this set, the salesman enters the items he sells a customer on a special prepared order blank, as described above, and this record is used by the stock clerk, shipping clerk, bill clerk and bookkeeper. The orders are punched to fit the special loose leaf binders, and after the bill has been made and the extensions entered by the bookkeeper, it is placed in this file, which is the sales book. If any article sold a customer is out of stock, or a part of it is out of stock, this is noted on the order by the stock clerk, and also on the bill by the bill clerk, who makes out a back-order for the shortage and retains it on his desk until the goods are received. When they are received the order is completed, unless the customer cancels it. If the freight or express is to be prepaid or to be credited, the shipping clerk ascertains the amount and enters it on the order. This information is for the bill clerk and bookkeeper.

Each customer is charged in the sales ledger with the value of merchandise shipped him, as indicated by the extensions on the orders. At the close of each day, the bookkeeper enters the order number and amount on the recapitulation sheet, and at the end of the month, the total of this sheet is posted to the debit side of the Sales Ledger account in the general ledger, and to the credit side of the Sales account. The recapitulation sheet is filed above the last order and indicates that all

July 2, 191

L.F.		General Ledger Dr.	Purchases Ledger Dr.	General Ledger Cr.
✓	J. A. Whitney, Capital	12482 10		
✓	J. S. Martin	12482 09		
	Good Will	5035 81		
✓	A. Y. Burrows	2000		
✓	W. R. Lewis	1000		
	J. C. Bell	700		
✓	Student	200		
✓	R. A. Porter	600		
✓	B. A. Kirkland	700		
✓	C. D. Wilhoit	500		
✓	O. R. Calloway	300		
✓	L. D. Walker	200		
	C. A. Norman	800		
✓	Walter C. Cooper	1500		
✓	James O. Whitman	1200		
✓	A. H. Coulter	1100		
	Capital Stock			40800
	Entry changing the books from a partnership to a corporation			
	13			
	E. Levering & Co.		500	
	Res. for Dep. of Del. Equip	75		
	Delivery Equipment			575
	Sold team and wagon and received credit for $500. Cost value of team $575.			

Illustration No. 101. Journal.

Purchases Book

Date	L.F.	Account Credited	Address	Purchases Ledger Cr.	Purchases Dr.	Branch Store Dr.
July 6		Swift Packing Co	Chicago Ill.	2078 20	2078 20	
		Arbuckle Bros	New York, N.Y.	550	550	
		Louisville Soap Co	Louisville Ky.	605	605	
		W.H. Harrison & Co	Cincinnati, Ohio	2325	2325	
30		Whitaker Paper Co	City	368	368	
				14065 87		
31		Purchases Ledger Cr		14065 87		
					14065 87	
		Purchases Dr			14065 87	
Aug 4		Genesee Pure Food Co	Le Roy, N.Y.	850 50		850 50
		Swift Packing Co	Chicago, Ill.	2983 40	2983 40	
10		Arbuckle Bros.	New York N.Y.	1150	1035	115
28		Franklin Sugar Co	Baltimore, Md.	2017 19	2017 19	
				17751 05		
		Purchases Ledger Cr		17751 05		
					15650 88	
		Purchases Dr			15650 88	
						2100 17
		Branch Store Dr				2100 17

Illustration No. 102. Left Page of Purchases Book.

orders below it have been posted. The advantage of the recapitulation sheet is that it shows at the end of each day the total sales.

This method of recording credit sales is very popular in business, because it permits a greater degree of accuracy and prevents an unnecessary waste of time in copying the items sold. When this method is not used, as a general rule, a carbon copy is made of the bill and this is used as the sales book record. Each method has its advantage, depending entirely upon the nature of the business and the method of making sales.

§ 263. **Purchases Book.** The invoices will not be pasted in the purchases book as instructed in the preceding set, but will be entered in a special ruled book and filed in the Invoice file. Each invoice is numbered in consecutive order, beginning with 1, and should be filed in the same order.

Purchases Book

Date		No	Terms	Last Disc't Day	Amount Due		When & How Paid	Remarks.
July	2	1	2/30 n/60	August 1	2036	64	8/1 - Check #29	
		2	2/20	July 22.	539		7/21 N.Y. Dft Ck #16	
	3	3	2/30 n/60	August 2.	592	90	8/1 Check #28	
		4	Aug 1, 2/10 n/30	August 11.	2278	50	8/9 Check #42	
	26	20	Aug. 15, 2/30 n/60	September 14	360	64	9/15 Check #97	
July	31	21	1/10 for N.Y. Dft	August 10	841	99	8/9 - N.Y. Dft Ck #44	
	28	22	2/30 n/60	August 27	2923	72	8/27 - Check #66	
Aug.	10	26	2/10 n/60	Aug. 20.	1127		8/22 - N.Y. Dft Ck #60	Returned for credit 5 cases coffee, damaged
	24	36	2/10 n/30	September 3,	1976	85	9/3 - N.Y. Dft. Ck #76	

Illustration No. 102. Right Page of Purchases Book.

Illustration No. 102 shows the form of the purchases book to be used. At the beginning, the student will not use the third money column, which will be introduced and explained later. The columns in the purchases book are arranged for all the necessary facts, also for special information relative to when an invoice is due, the amount that must be paid, etc. Each person or firm is credited in the purchases ledger with the amount of the invoice purchased from him. At the end of the month, the total of the purchases ledger column is posted to the credit side of the Purchases Ledger account in the general ledger, and the total of the purchases column, to the debit side of the Purchases account. When an invoice is paid, it should be checked in the purchases book to show that it has been paid. The small check mark to the right of the due date indicates that a check has been sent. By checking in this manner, those interested will know at a glance the invoices that are paid.

Cash Receipts

Date July	L.F.	Name of Account	Explanation	General Ledger Cr.	Sales Ledger Cr.	Sales Discount Dr.	Sales Cr.	Bank.
2	✓	Balance		16317 95				
	✓	A. Y. Burrows	20 Shares	2000				
	✓	W. R. Lewis	10 "	1000				7/2 25317 95
5		Parker Bros. & Co.	On account		86 79			
		Hollingsworth & Bane	Full of acct		352 11	7 80		
7	✓	Sales	Cash sales				375	
		G. D. Mays & Bro	On account	25317 95	125 593 90	2 07 11 67	375	7/7 968 90
9		Nance & Rountree	Full of acct		26 31			
		Prince & Richards	" "		123 54	2 82		
13		Notes Receivable	A. B. Wood note	689 37				
		Interest	Above note	10 34				
14		J. C. Bell & Co	Full of acct	26071 66	829 34 2264 34	15 49	757 50	7/14 2752 65
30		W. R. Carter & Son	On account		120 35	3 72		
31		Johnson & Henry	" "	75 27173 29	5857 42	69 99	3276 10	7/31 2755 35 36306 81
	✓	Total Deposits						36,306 81
		Sales Cr		3276 10			3276 10	
		Sales Discount Dr				69 99		
		Sales Ledger Cr		5857 42 36306 81	5857 42			
				36306 81				

Illustration No. 103. Debit side of Cash Book.

§ 264. **Cash Book.** As explained in § 114, the object of the cash book is to contain a record of all cash received and paid. Since this book usually contains more transactions than any other, special columns can be used to a great advantage. In this set the book to be used will contain five columns on each side. Illustrations Nos. 103 and 104 show the form and use of each. By referring to these, the student will note that the first column on the debit side is for amounts that are to be posted to the general ledger; the second column is for amounts that are to be posted to the sales

Cash

Payments

July Date	L F	Name of Account	CK. No	General Ledger Dr.	Purchases Ledger Dr.	Purchases Discount Cr.	Gen'l. Admr. Exp Dr.	Bank
5	✓	Gen'l Admr. Expense	No. 2				150	150
		Armacost Riley & Co	" 3		908 05			908 05
6		P. H. Haynes & Co.	" 4		437 90	27 95		437 90
		Whitaker Paper Co.	" 5		743 75			743 75
7		Advertising	" 6	75 75	2089 70	27 95		75 2314 70
10		Church & Dwight	" 7		1444 95	44 69		1444 95
12		Notes Payable	" 8	2500				2500
14		Warehouse Expense	No. 10	45				
		Delivery Expense	" 10	35 3054	3534 65	72 64	367 50	450 4632 45
31		Warehouse Expense	No. 25	45				
		Delivery Expense	" 25	42 50 6889 12	5807 16	123 81	605 75	457 50 13322 03
	✓	Total Checks Written						13322 02
		Gen'l Admr. Expense, Dr		605 75			605 75	
		Purchases Discount, Cr				123 81		
		Purchases Ledger, Dr		5807 16	5807 16			
	✓	Balance		23004 78				
				36306 81				

Illustration No. 104. Credit side of Cash Book.

ledger; the third column is for discounts deducted by customers for prompt payment; the fourth column is for cash sales; and the fifth column is for amounts deposited in the bank. He will also note that the first column on the credit side is for amounts to be posted to the general ledger; the second column is for amounts to be posted to the purchases ledger; the third column is for discounts deducted by us for prompt payment; the fourth column is for general administrative expense; and the fifth column for amounts withdrawn from the bank. The third column on each side does not affect cash,

because the net amount of money received or paid is entered; thus, if a customer owes $100.00, and pays this by a check for $97.00, the $3.00 being deducted as per terms of the bill, he is credited with the $97.00 in the second column, and the $3.00 discount in the third column. In the same way if we owe an invoice of $1,000.00, and pay it by a check for $960.00, the deduction being made as per terms of the invoice, the creditor is charged with the $960.00 in the second column, and the $40.00 in the third column.

¶ 1. *To Prove Cash.* Foot the five columns on the debit and credit sides, and enter the total of each column in small pencil figures just below the blue line on which the last entry is made. These pencil footings are entered below the same blue line, so that the date when the cash was proved can be shown at a glance. The difference between the total of the first, second and fourth columns on the debit side and the total of the first, second and fourth columns on the credit side is the cash balance, which should be the same as the difference between the fifth column on the debit and credit side, if all the money has been deposited. If not, the amount of money on hand must be added to the bank balance.

¶ 2. *Method of Keeping the Bank Account.* The balance in the bank at the first of the month is entered in the fifth column. When a deposit is made, the money and checks on hand are listed on the deposit ticket in the same order as they are entered in the cash book. At the same time the amount of the deposit is entered in the fifth column, on a line with the last entry in the cash book; thus the total of the fifth column will equal the amount in the bank, after the deposit has been made, if none has been withdrawn. When a check is written, the amount is entered on the credit side of the cash book, and a check mark placed on the check stub to show that it has been entered. The amount is placed in the proper column or columns according to the account or accounts affected. At the same time the amount of the check is extended into the fifth or bank column. The total of this column will equal the total amount of money withdrawn from the bank, and the difference between the bank column on the debit side of the cash book and the bank column on the credit side, will be the amount of money in the bank. After all the money has been deposited, the difference between the total of the first, second and fourth columns on the debit side, and the total of the first, second and fourth columns on the credit side, will be the same as the difference between the fifth columns on the debit and credit sides. If any money remains on hand, this must be added to the difference between the fifth columns. The cash balance and bank balance should be written in small pencil figures at the left, as shown in the illustration. When a bank account is kept in the cash book, it is not necessary to subtract each check on the check stub, as one record is sufficient.

¶ 3. *To Prove the Sales Discount and Purchases Discount Columns.* Since the amounts entered in these columns do not affect the cash balance, the totals can not be accepted as correct until they have been proved. If an adding machine is used in the office, the bookkeeper can very easily verify the addition of these. If there is no adding machine, these columns must be added very carefully, as an error in the addition of these would affect the Trial Balance. These columns should be footed each time the cash is proved, because the totals must be posted at the end of the month.

¶ 4. *To Post from the Debit Side of the Cash Book.* Each amount entered in the first or general ledger column on the debit side, is posted to the credit of the account written on the same line with it, this account being in the general ledger. Each amount entered in the second or sales ledger column is posted to the credit side of the customer's account written on the same line with it, this account being in the sales ledger; if any discount has been allowed, the amount of this, which is entered in the third or discount column, is posted to the credit side of the customer's account, the two amounts being posted separately. Amounts entered in the fourth column are not posted until the end of the month, at which time the total only is posted. The amounts entered in the fifth column are not posted, because they represent the amounts deposited in the bank. At the end of each month, the total of the second column on the debit side is posted to the credit side of the Sales Ledger account in the general ledger; the total of the third column is posted to the credit side of the Sales Ledger account, and to the debit side of the Sales Discount account; the total of the fourth column is posted to the

credit side of the Sales account. The total of the fifth column is not posted, unless an account is kept with the bank in the general ledger.

¶ 5. *To Post from the Credit Side of the Cash Book.* Each amount entered in the first or general ledger column on the credit side is posted to the debit side of the account written on the same line with it, this account appearing in the general ledger. Each amount in the second or purchases ledger column is posted to the debit side of the account written on the same line with it, this account appearing in the purchases ledger; if any discount is deducted, it is entered in the third column, and must be posted to the debit side of the account written on the same line with it, both amounts being posted separately. Amounts entered in the fourth column are not posted until the end of the month, at which time the total is posted. The amounts entered in the fifth column are not posted, because they represent the amounts withdrawn from the bank. At the end of each month, the total of the second column on the credit side is posted to the debit side of the Purchases Ledger account in the general ledger; the total of the third column is posted to the debit side of the Purchases Ledger account, and to the credit side of the Purchases Discount account; the total of the fourth column is posted to the debit side of the General Administrative Expense account. The total of the fifth column is not posted, unless an account is kept with the bank in the general ledger.

§ 265. **Petty Cash Book.** It is best practice to deposit all money and checks received, and make all payments by check, and the student is advised to always do this. If it is necessary to make small payments, these can be made from a fund kept on hand for this purpose. This special fund to be used for making small payments with currency is sometimes called the "Imprest Fund."

This fund is created by withdrawing from the bank an amount sufficient to meet these payments. This may be ten, twenty, fifty or one hundred dollars, depending upon the amount and number of payments. As a general rule, ten or twenty dollars is sufficient, as this fund is used only for small payments, usually those less than one dollar.

The amount of the fund and the payments are recorded in the petty cash book. The record should show the date of the first amount withdrawn to create the fund, the check number, the date of each payment, the name of the account affected by the payment and the amount. The petty cash book is proved by counting the money belonging to the imprest fund, which must be the same as the difference between the payments and the amount of the check. The imprest fund should be kept in a special drawer in the safe, and no one should have access to it except the bookkeeper, or person who makes the payments. When the fund is exhausted, another check is written and the proper charge or charges are made in the cash book for the various payments. If the same account has been affected by more than one payment, the two or more are added together and one entry made for all the payments affecting that account. The petty cash book is only a small memorandum book, and should be kept in the drawer with the imprest fund. When the imprest fund is exhausted, the petty cash book is ruled. It is not necessary for all the money belonging to the imprest fund to have been paid out at the time it is renewed; thus, if the imprest fund is $20.00, and $19.35 has been paid out, and it is desired to renew the fund, the check is written for $19.35, the petty cash book ruled and 65c. balance brought down. To this is added the amount of the check written, which gives the full amount of the imprest fund. When cash is proved, the full amount of the imprest fund is considered as on hand. Thus, if it is $20.00, the difference between the two sides of the cash book will be $20.00 more than the cash balance in the bank, even though a part of the imprest fund has been paid out, because a charge is not made in the cash book until the fund is renewed.

The bookkeeper can not be too careful in handling his cash, as the auditor will insist on a complete record of each transaction involving the receipts and payments of cash and a voucher to show the reasons for each payment. If all currency and checks received are deposited in the bank and all amounts paid by check, the auditor can very readily satisfy himself relative to the correctness of the Cash account and cash book. The bookkeeper should insist on a receipt for each amount paid

out of the imprest fund, and these receipts should be filed in a special file, so that the auditor can check each payment in the petty cash book.

Illustration No. 105 shows the form of petty cash book to be used in this set. This, together with the explanation given above, should be sufficient to enable the student to understand the method of keeping this fund.

Petty Cash Book.

191 July	2	Imprest Funds	20	
		Check No. 1		
	6	General Administrative Expense		1 50
		Electric bill		
	11	General Administrative Expense		3
		Wastebasket $1; telegram 50¢; pencils $1.50		
	14	General Administrative Expense		25
		Charges on two N.Y. drafts	20	4 75
	31	General Administrative Expense		1 50
		Postal cards		
	31	Delivery Expense		1
		Repairs on harness	20	17 35
Aug	4	General Administrative Expense		2
		Gas bill		
		Balance		65
			20	20
		Balance	65	
	7	Imprest Funds	19 35	
		Check No. 36		

Illustration No. 105. Petty Cash Book.

§ **266. Notes Receivable Book.** As explained in § 183, this book may be used either as an auxiliary book or as a book of original entry. In the preceding set it was used as an auxiliary book; in this set it will be used as a book of original entry. By comparing the blank book to be used with illustration No. 63, the student will note that the form is the same except that there are three money

columns instead of one. The first is for the face of the note, the second for the interest or discount, and the third for the amount with which the customer's account is to be credited. When the notes receivable book is used as a book of original entry, the transaction is not entered in the journal, but posted direct from this book to the ledger. If the customer is to be credited with the face of the note, the same amount is entered in the first and third money column. If he is to be credited with a less amount than the face of the note, the difference being the interest (discount) to maturity, the face of the note is entered in the first column, the amount of the discount in the second column in red ink, and the amount with which the customer is to be credited, in the third column. If the value of the note at maturity is more than the face of the note, the customer's account will be credited with a greater amount than that mentioned in the note. In this case, the face of the note is entered in the first column, the interest, in the second column in black ink, and the amount with which the customer's account is to be credited is entered in the third column.

¶ 1. *Posting from the Notes Receivable Book.* Each amount entered in the third column is posted to the credit side of the customer's account, written on the same line with it, and in the column marked, "Personal Account Credited." The account will always be found in the sales ledger. No amounts are posted to either the Notes Receivable or Interest account until the end of the month. At that time, the three columns are footed and ruled with single and double red lines, and proved to be correct. The difference between the total of the black and red ink entries in the second column, if red, added to the total of the third column must equal the total of the first column; if the difference is black, it should be subtracted. After the amounts are proved to be correct, the Notes Receivable account in the general ledger is debited for the total of the first column; the Interest account is debited for the total of the black ink entries, and credited with the total of the red ink entries; the Sales Ledger account is credited with the total of the third column. If desired, the difference between the totals of the black ink and red ink entries in the second column may be posted to the debit or credit side of the Interest account, but it is best to post both, because it permits this account to show the true result.

¶ 2. *To Prove the Notes Receivable Book.* When a note or accepted draft is paid in full, or in part, the payment is credited on the back of the note and entered in the remarks column. If a note or draft is sent to a bank for collection, this must be shown in the remarks column. The notes receivable book is proved by comparing the notes or accepted drafts on hand with the entries in the book. When this method is used, the face of each note is not shown in the Notes Receivable account, unless the bookkeeper wishes to enter them for information. He can do this by posting the amount of each note at the end of the month instead of the total. It is not necessary to do this. The difference of the Notes Receivable account must be the same as all notes on hand; that is, those in the "Notes" file and the ones sent for collection.

§ 267. Notes Payable Book. As explained in § 184, the object of this book is to keep a record of all notes signed, or drafts accepted by the business. The ruling is the same as the notes receivable book, the only difference being in the use of the columns. As explained in § 184, the book may be used as an auxiliary book or as a book of original entry. In this set it will be used as a book of original entry. By comparing the blank book to be used with illustration No. 64, the student will note that the form is the same except that there are three money columns instead of one. The first is for the face of the note, the second for interest and the third for the amount with which the creditor is charged. When a note is signed or a draft accepted, the transaction is entered in this book and not in the journal. The face of the note or draft is entered in the first column. If the interest increases the amount with which the creditor is charged, it is entered in the second column in red ink. If it decreases the amount, it is entered in black ink. The amount with which the creditor is to be charged is entered in the third column.

¶ 1. *Posting from the Notes Payable Book.* Each amount entered in the third column is posted to the debit side of the creditor's account, written on the same line with it, in the column marked, "Personal Account Debited." Amounts in the first and second columns are not posted until the end of the month. At that time the three columns are footed and proved to be correct in the same manner

as the notes receivable book, and then ruled with single and double red lines. The total of the first column is posted to the credit side of the Notes Payable account in the general ledger; the total of the black ink entries in the second column is posted to the debit side of the Interest account, and the total of the red ink entries is posted to the credit side; the total of the third column is posted to the debit side of the Purchases Ledger account.

¶ 2. *To Prove the Notes Payable Book.* The notes payable book is proved in the same manner as the notes receivable book, and the record of notes paid is entered in the remarks column in the same manner.

§ 268. **Goods Returned Book.** The object of this book is to keep a record of the goods returned by customers. There are various reasons why a customer will return goods, and so long as this reason is good, it is best practice to accept the goods and credit the customer's account with their value. A credit bill is sent for goods when they are received, so that the customer will know that his account has been credited. The goods are checked up by the shipping clerk or receiving clerk, and a list made showing the items contained in the shipment. If the freight is not prepaid, the amount of this is entered so that it may be deducted from his credit. The list is then given to the bookkeeper, who makes the extensions from the prices on the bill, enters the items in the goods returned book, and sends a credit bill. Many firms use the same list made out by the shipping or receiving clerk as a credit bill. When this is the case, the bookkeeper enters the extensions according to the prices mentioned on the bill sent when the goods were sold, makes a record in the goods returned book, and mails the credit bill to the customer. The form of the goods returned book is the same as the sales book, shown in illustration No. 33.

¶ 1. *Posting from the Goods Returned Book.* Each amount in the second column is posted to the credit side of the person's account written on the same line with it, this account being in the sales ledger. At the end of the month, the book is ruled and footed in the same manner as the sales book, illustration No. 33, and the total is posted to the debit side of the Sales account, and to the credit side of the Sales Ledger account in the general ledger.

LEDGERS TO BE USED.

In this set the student will use three distinct ledgers, as follows: general ledger, purchases ledger and sales ledger. The general ledger will contain controlling accounts which will show the total debits and credits for both the purchases ledger and sales ledger.

§ 269. **General Ledger.** This ledger will contain all accounts except those with creditors (persons or firms from whom goods are purchased on time) and customers (persons or firms to whom goods are sold on time), and one account (Purchases Ledger) which will represent all the accounts in the purchases ledger, and another account (Sales Ledger) which will represent all of the accounts in the sales ledger. The ruling is the same as that shown in the ledger accounts in all of the illustrations in this text. The Trial Balance is made from the general ledger, and the accounts in the other ledgers have nothing to do with it.

§ 270. **Purchases Ledger.** This ledger contains an account with each person, firm or corporation from whom merchandise or other property is purchased on time. The accounts are debited and credited in the same manner as when they are kept in one general ledger. The ruling in this set is different from that in the general ledger. Illustration No. 106 shows the form. The student will note that this contains three money columns ruled in the center of the page; the one on the left is for debits and the one on the right for credits; the center column is for balances at the time the ledger is proved. The date for each debit item is entered at the extreme left, and for each credit item at the extreme right.

This ledger is proved to be correct by comparing the total of the various balances with the balance of the Purchases Ledger account in the general ledger. It is not proved until the Trial Balance has been made and is in balance. The amount due each creditor is entered in the balance column.

(If there are no entries on the debit side, the balance need not be entered in the Balance column; if there is only one entry on the credit side, this is the balance; if more than one, the pencil footings show the balance.) These balances are transferred to a separate sheet of paper or to a regular trial balance book and added. The total must be the same as the balance of the Purchases Ledger account in the general ledger. If it is not the same, it is necessary to check the work in this ledger in the same manner as checking to discover an error in the Trial Balance.

Whitaker Paper Co

Date		Items	Fol.	✓	Debits	Balance	Credits	✓	Fol.	Items	Date	
191 July	6		C2	✓	743 75		743 75	✓	71	May 5 n/60	191 July	2
Aug	11		6	✓	328 30		335	✓	P10	July 12 2/30 n/60 Dating Aug 15		18
		Discount		✓	6 70	703	368	✓	P20	26. 2/30 n/60		30
Sept	6		GJ1	✓	135	503	135	✓	P25	Aug 8 2/30 n/60	Aug.	10
	15		GJ2	✓	368		246 88	✓	P42	Sept 11, 2/30 n/60	Sept	12

NOTE.—The address of each person, firm or corporation, should be shown on the account in the ledger. This may be omitted if local, as the street address is not necessary.

Illustration No. 106. A Creditor's Account.

§ 271. Sales Ledger. This ledger contains an account with each person to whom the business sells merchandise or other property on time. It is ruled similar to the purchases ledger, and the columns are used in the same manner. This ledger is proved to be correct by comparing the total due from customers with the balance of the Sales Ledger account in the general ledger. This proof is not made until after the Trial Balance has been made and is in balance. The amount due from each customer is entered in the balance column. (If there are no entries on the credit side, the balance is not entered in the balance column; if there is only one entry on the debit sid(this is the balance, if more than one, the pencil footings show the balance.) These balances are transferred to a sheet of paper or trial balance book and added. If correct the total will be the same as the difference of the Sales Ledger account, as explained. If the totals do not agree, it is necessary to check the work in this ledger in the same manner as in detecting errors in the Trial Balance.

AUXILIARY BOOKS USED IN THIS SET.

The only auxiliary books used in this set are the Stock Certificate Book, Stock Ledger, and Check Book. The use of these is explained in §§ 272, 273, and 274.

§ 272. Stock Certificate Book. This is made up of blank stock certificates and stubs. A reference to illustration No. 107 is sufficient explanation. When a certificate is issued, the facts are shown on the stub. These are transferred to the stock ledger, where an account is kept with each stockholder. The facts on the stub must be the same as those on the certificate, otherwise the record will not be correct. The stub of the certificate might be considered as a book of original entry for the stock ledger, as the posting is done from this.

Certificate No. 17
For Ten (10) Shares
Issued to
James O. Whitman
218-4th Ave., City
Date Aug 3, 191
Transferred from
Date July 2, 191

No. Original Certificate	No Original Shares	No. of Shares Transferred
14	14	4

Received Certificate No. 17
for Ten Shares
this 3d day of Aug 191
James O. Whitman

SHARES $100.00 EACH

No. 17 Shares 10

This Certifies That James O. Whitman
is the owner of Ten Shares of the Capital Stock of

F. A. Whitney & Co.

transferable only on the Books of the Corporation in person or by Attorney on surrender of this Certificate.

In Witness Whereof, *the duly authorized officers of this Corporation have hereunto subscribed their names and caused the Corporate Seal to be hereto affixed at ________ on this* third *day of* August *A. D. 191*

J. S. Martin, Secretary. J. A. Whitney, President

Illustration No. 107. Stock Certificate Book.

§ 273. **Stock Ledger.** The object of this book is to contain an account with each stockholder. His account is credited with the value of each certificate issued and charged with any stock sold. An entry must be made for each certificate, and the serial number of the certificate should be shown in the explanation column. Illustration No. 108 shows the correct form. The entries are made in this book from the stub of the stock certificate book. As a general rule, each stockholder is required to sign the stub, thus providing a receipt for the stock. If each account in the stock ledger shows the number and value of each certificate, the auditor can very readily verify the correctness of this. If a stockholder sells a part or all of his stock, it will be necessary for the purchaser to have the stock transferred on the books, otherwise he will not receive any dividend on it. This transfer is effected by issuing a new certificate. If the stockholder has sold all of his stock, the old certificate is canceled and a new one issued in favor of the purchaser. If he has sold only a part, two new certificates are issued, one to him for the stock which he still owns, and one to the purchaser for the stock he has purchased. The old certificate is then pasted to the original stub, thus providing a complete record. If the stub is filled out correctly, the bookkeeper can post the entry to the stock ledger, charging the stockholder who has sold the stock, and crediting the new stockholder for the number and value of shares purchased. All entries in the stock ledger are at par value, and the price paid has nothing to do with the entry in this book.

The stock ledger is proved by adding the par value of each stockholder's stock. This must equal the Capital Stock account in the general ledger.

James O. Whitman

Date		Cer. No	No. of Shares Issued	No. of Shares Trans.	To whom Transferred and other Explanations	Debit	Credit
191 July	2	14	14		Subscribed		1400
Aug	3	18		4	J. H. Cottrell	400	
					Balance	1000	
						1400	1400
Aug	3	17	10		New certificate		1000

Illustration No. 108. Stock Ledger.

§ 274. **Check Book.** The check book in this set contains three checks to the page. It is similar to the one used in the preceding set, except some of the facts shown on the stub and the voucher form at the left-hand end of the check. The bank account is kept in the cash book, hence it is not necessary to keep it on the check stub. After the stub has been filled out and the check written, the voucher space at the left-hand end of the check is filled in. This must show the nature of the payment, that is, the reason why the check is written. When this check is received by the person to whom it is sent he will know at once the reason why it has been issued. If there is any error he will return it for correction. His acceptance of the check and the statements mentioned in the voucher form constitutes a receipt. The endorsement on the back is evidence of acceptance. This is a very popular form of the voucher check, and is rapidly taking the place of the large voucher form formerly used.

§ 275. **Power of Attorney.** The power of attorney is a contract which authorizes one person to act as agent for another. This contract should always be in writing, and if it is for a longer period than one year should be recorded in the office of the proper county official. No person should sign the name of another person to any contract, without having a written power of attorney showing his authority. While it is not necessary for the bookkeeper for an individual, partnership or corporation to have a written power of attorney authorizing him to sign papers received in everyday business, yet it is best policy for him to have this, as it protects him in case of dispute. This is usually true with a corporation, as no one is authorized to transact business for a corporation, except by authority of the board of directors. The power of attorney may be given by authority of the board of directors at a regular meeting or a special meeting. If the authority is granted at a meeting and properly recorded in the minute book, the bookkeeper is protected, even though he does not have the written power of attorney. However, it is really better for him to have this, and he should always insist on it, especially where he has to sign any commercial paper that binds the corporation.

§ 276. **Trial Balance, July 31st.** This Trial Balance is made from the general ledger and includes all of the accounts in this book. It will not contain any accounts with creditors or customers, and the accounts in the purchases ledger and sales ledger will not affect it in any way. After the Trial Balance has been proved to be correct, the purchases ledger is proved by comparing the total amount due to creditors with the balance of the Purchases Ledger account. The sales ledger is proved to be correct by comparing the total amount due from customers with the balance of the Sales Ledger account. The list of creditors and customers may be made in the trial balance book direct, and thus avoid time and possible errors in copying. In an office where an adding machine is used, the bookkeeper seldom makes a list of customers and creditors in the trial balance book, but preserves the record made on the adding machine until the next Trial Balance is proved. In the schoolroom work it is best for the student to make a copy of the balances of creditor's and customer's accounts for reference in taking the next Trial Balance.

QUESTIONS.

1. Define the Journal. (§ 261.)
2. When controlling accounts are kept in the general ledger, why is it necessary to have special columns in the journal?
3. Describe the journal used in this set. (§ 261.)
4. Describe the purchases book used in this set, and give some of its advantages over the one used in the preceding set. (§ 262.)
5. Define the sales book used in this set, and state some of its advantages over the one used in the preceding set. (§ 263.)
6. Define the cash book. (§ 264.)
7. What does the debit side show? The credit side? (§ 264.)
8. Describe the form used in this set. (§ 264.)
9. Name the special columns on the debit side and define the use of each. (§ 264.)
10. Name the special columns on the credit side and define the use of each. (§ 264.)
11. What is the petty cash book? (§ 265.)
12. Define the imprest fund. (§ 265.)
13. Name some of the advantages in keeping this. (§ 265.)
14. When are the proper accounts debited for payments from the imprest fund? (§ 265.)
15. In proving cash, is the full amount or the actual amount on hand used? (§ 265.)
16. Give reasons for your answer.
17. When the notes receivable book is used as a book of original entry, is it necessary to enter notes received by us or drafts drawn by us in the journal? (§ 266.)
18. Give a reason for your answer in No. 17.
19. When the notes payable book is used as a book of original entry, is it necessary to enter notes signed or drafts accepted by the business in the journal? (§ 267.)
20. Give reasons for your answer in No. 19.
21. What is the use of the goods returned book? (§ 268.)
22. Name the three ledgers used in this set.
23. Define the general ledger. (§ 269.)
24. Define the purchases ledger and explain how it is proved. (§ 270.)
25. Define the sales ledger and explain how it is proved. (§ 271.)
26. Name some of the advantages in keeping these three ledgers. (§ 271.)
27. Define the stock certificate book. (§ 272.)
28. Define the stock ledger. (§ 273.)
29. How is the stock ledger proved to be correct? (§ 273.)
30. Describe the check book used in this set. (§ 274.)
31. What is the advantage of the special voucher form on the end? (§ 274.)
32. Why is it best for the bookkeeper to keep a copy of each deposit made?
33. Define a Power of Attorney. (§ 275.)

EXERCISES IN JOURNAL ENTRIES AND STATEMENTS—CORPORATIONS.

EXERCISE No. 75. 1. C. W. Miller, D. L. Monroe, C. W. Richards and Julius Robinson form a corporation for the purpose of engaging in the manufacturing of novelties. The capital is $10,000.00, each subscribing and paying for an equal number of shares.

Make the required journal entry. Debit Cash for the money received and credit Capital Stock for the $10,000.00. Each person would be credited in the stock ledger, the posting being made from the stub of the stock certificate.

2. A., B., C., D. and E. obtain a charter incorporating the Central Machine Co. The capital stock is $25,000.00, 500 shares valued at $50.00 each. A. subscribes and pays for 125 shares; B. subscribes for 75 shares, paying for 50, balance to be paid in 30 days; C. subscribes and pays for 65 shares; D. subscribes for 150 shares, paying cash for 100 and executing his 90-day note for the other 50; E. subscribes and pays for 50 shares.

Make the required journal entry. *Debit* Cash for the money received, Notes Receivable for the note, B. for the amount he owes, and *credit* Capital Stock. No entry is made for the unsold stock.

3. L. C. Houk owns and operates a machine shop. He desires to consolidate the business with that of Burrows Bros. The new firm is incorporated, a charter having been obtained. The following are the assets of Mr. Houk: cash, $487.65; machinery valued at $3,989.55; accounts due from customers, $769.80; notes due him, $614.27; office equipment, $450.00. He owes an account of $947.85, and a note for $1,000.00, with accumulated interest, $14.36. His Capital Account stands credited with $4,325.97. Burrows Bros.' (J. W., C. J., M. L., and N. O., equal partners) books, after being closed, show the following: Cash, Dr. $1,587.65; Machinery, Dr. $9,227.63; Real Estate, Dr. $6,000.00; Office Equipment, Dr. $875.00; Delivery Equipment, Dr. $250.00; Accounts Receivable, Dr. $7,691.82; Notes Receivable, Dr. $1,846.75; Accounts Payable, Cr. $2,763.19; Notes Payable, Cr. $1,500.00; Burrows Bros., Capital, Cr. $22,984.91. Three per cent is to be deducted from accounts due each firm for possible loss by failure to collect. (Credit Reserve for Bad Debts.)

It is agreed that Burrows Bros. are to be allowed a good will of $2,015.09 and Mr. Houk $674.03, for which they are to have stock. The capital stock is to be $30,000.00, each person having as many shares as his interest in the old business compares with the new capital.

You, as bookkeeper for the new corporation, are to make the required journal entry, opening up a new set of books.

NOTE.—As the books of both concerns are in balance, combine the accounts that are similar. Debit Good Will for the allowance for good will, and credit Capital Stock for the capital.

4. C. L. Loyd, N. C. Hines, D. W. Buckner, R. L. Falkner and C. W. Elliott obtain a charter for the Hawkins Valley Railroad. The capital stock is to be $500,000.00, (5,000 shares, par value $100.00 per share) to be subscribed for and paid in installments of at least 10 per cent per month. They wish to have the books opened and hand the bookkeeper the following memorandum: Subscription list: Each incorporator subscribes for 400 shares and pays $1,000.00. C. J. Brabson, 200 shares, $2,000.00 paid; Robert Howell, 150 shares, $3,500.00 paid; S. C. Bostwick, 250 shares, $2,500.00 paid; J. B. Falkner, 125 shares, $2,000.00 paid; D. D. Eaton, 200 shares, $3,000.00 paid; J. W. Brown, 15 shares, $1,500.00 paid; R. W. Wilson, 90 shares, $1,000.00 paid; Hawkins County, 500 shares, paid by accepting 1,000 shares Union Railroad Co. stock; J. A. Puterbaugh, 50 shares, $1,000.00 paid; C. W. Gray, Al. H. Cooper, C. W. Catlett, W. K. Badgett, S. H. Luttrell and Martha Dobson, each 25 shares, with 10 per cent payments. Sold the Union Railroad Co. stock for $45,000.00 in cash. The cash is deposited in the bank in the name of the corporation. The following checks have been issued: $525.00 for obtaining charter (General Expense); $2,650.00 for right of way; office rent, $50.00 (General Expense); stationery, $12.50 (General Expense); circulars for advertising, $147.50; telegrams, $6.50 (General Expense); attorney's fees, $175.00 (General Expense).

As bookkeeper, make the required opening entry, using the cash book.

NOTE.—Some bookkeepers do not credit the Capital Stock account with the value of stock subscribed for until all of it has been paid. Others credit Capital Stock with all money received in payment for stock. The same results are obtained after all the stock has been paid for. In this case credit Capital Stock for the amount each person paid. If you were to continue the work, an installment book would be necessary, so that the amount due from subscribers might be ascertained. Enter in the cash book "Capital Stock, C. L. Loyd, $1000.00", etc. Capital Stock is credited in the general ledger and each individual in the installment ledger. Each person is charged in the installment ledger with the number of shares for which he subscribed, from the subscription list, hence no entry is made on the journal.

5. C. A. Blosser and L. B. Audigier, as equal partners, are engaged in the lumber business, operating a saw mill and shop. Their books, after being closed June 30th, show the following: C. A. Blosser, Capital, Cr. $17,272.50; L. B. Audigier, Capital, Cr. $17,216.50; Lumber, Dr. $9,641.87; Planing Mill, Dr. $7,612.00; Machinery, Dr. $8,450.00; Cash, Dr. $3,471.65; Notes Receivable, Dr. $1,675.82; Notes Payable, Cr. $1,500.00; Office Equipment, Dr. $350.00; Reserve for Depreciation of Office Equipment, Cr. $35.00; Accounts Receivable, Dr. $9,681.27; Accounts Payable, Cr. $4858.61.

They incorporate with a capital stock of $60,000.00, 1,200 shares at $50.00 each. Each of the partners received $18,000.00 worth of stock, the balance being subscribed for as follows: J. C. Newman, 100 shares, paid; D. W. Bowen, 25 shares, paid; A. C. Kienzle, 50 shares, paid $600.00, balance on demand; D. D. Anderson, 75 shares, paid cash one-half, and gave his note, due in 60 days, for the

balance; O. W. Brown, 100 shares, paid by our accepting timber on sections 33 and 34 in township 6 range 5, east; J. J. Nagel, 100 shares, paid; 30 shares not subscribed for. Make the required opening entry, using the journal and cash book.

6. The bookkeeper for the Magill Hardware Co. makes his annual statement of the business from the following facts:

TRIAL BALANCE: Capital Stock, Cr. $60,000.00; Cash, Dr. $14,400.00; Sales, Dr. $318.56; Cr. $81,994.37; Purchases, Dr. $90,255.18, Cr. $518.60; Inventory, Dr. $26,782.14; Sales Discount, Dr. $882.46, Cr. $21.50; Purchases Discount, Dr. $32.75, Cr. $1,614.92; Freight In, Dr. $814.70; Real Estate, Dr. $1,600.00; Real Estate Expense and Revenue, Dr. $879.45, Cr. $121.65; Insurance, Dr. $250.00; Office Equipment, Dr. $729.46; Reserve for Depreciation of Office Equipment, Cr. $72.94; General Administrative Expense, Dr. $2,916.50, Cr. $135.50; Salaries in Selling Department, Dr. $2,529.40; Freight Out, Dr. $82.50; Traveling Expense, Dr. $2,391.85; Advertising, Dr. $1 654.42; Delivery Expense, Dr. $299.08; Interest, Dr. $37.52, Cr. $126.48; Notes Receivable, Dr. $9,614.72; Notes Payable, Cr. $19,021.76; Accounts Receivable, Dr. $20,708.69; Reserve for Bad Debts, Cr. $207.07; Accounts Payable, Cr. $13,798.94; Profit and Loss, Dr. $316.50; Sundry Resource Inventories, Dr. $365.50; Sundry Liability Inventories, Cr. $227.65; Inventory, salable merchandise on hand, $52,763.49.

The balance of the Real Estate Expense and Revenue account shows the cost of maintaining the building, and is considered a part of the general administrative expense. 75% of the profit is distributed among the stockholders, and the other 25% credited to the Surplus account.

Ascertain the net gain and the amount of dividend the following stockholders will receive (shares, $100.00 each):

A, 75 shares; B, 125 shares; C, 110 shares; D, 85 shares; E, 25 shares; F, 60 shares; G, 40 shares; H, 35 shares; I, 20 shares; J, 25 shares.

7. The Davis Grocery Co. (Incorporated) owe Warren & Madden an account of $3,681.75, subject to 3 per cent discount. They settle by transferring 20 shares (par value, $100.00) of the capital stock at $110.00 and check for balance. Make the required entries for Davis Grocery Co. and Warren & Madden.

8. W. G. Darling subscribes for 10 shares of the capital stock of the Boyd Manufacturing Co. at $100.00 per share. He pays $250.00, and gives his 60-day note for balance, attaching the certificate of stock as collateral security. He died before paying the note. His estate proves insolvent and his administrator settles by the corporation refunding one-half the amount paid. What entry is made on the books of the corporation for the last transaction?

NOTE.—Had the estate been solvent, the corporation would have collected from it the balance due them, then issued the stock. As it is not, the above settlement is the one made. It is hardly possible that the court would allow them to retain the $250.00 because the other $750.00 had not been paid.

Treasury Stock should be debited for the face value of the stock. The student must use his own judgment regarding the credits.

9. C. W. Green subscribes for 15 shares of the Peoples' Telephone Co. stock, at $50.00 per share. He pays $100.00, which is credited to his account, this being charged with the value of the stock he bought. He fails to pay the balance, and suit is brought. Judgment is obtained for $687.96, being the $650.00 he owes, court costs, $26.40, and interest, $11.56. A check is given the attorney covering costs and 5 per cent collection fees. Make the required journal entry for each transaction.

10. W. W. Collett is appointed receiver for the National Printing Co. He finds the books in balance, the accounts standing as follows: Cash, Dr. $129.64; Capital Stock, Cr. $30,000.00; Printing, Dr. $61,429.65, Cr. $64,381.18; Printing Machinery, Dr. $19,476.28; Bindery, Dr. $18,621.11, Cr. $22,927.46; Bindery Machinery, Dr. $14,621.80; Expense, Dr. $1,416.25; Salaries, Dr. $6,463.95; Office Equipment, Dr. $650.00; Rent, Dr. $1,375.00; Interest, Dr. $465.82, Cr. $10.36; Notes Payable, Cr. $10,000.00; Notes Receivable, Dr. $426.90; Accounts Receivable, Dr. $13,681.19; Accounts Payable as follows: Union Paper Co., $4,621.95; U. S. Envelope Co., $1,416.95; American Envelope

Co., $671.25; L. A. Jones Paper Co., $2,961.54; Watertown Manufacturing Co., $1,411.95; Eagle Paper Co., $354.95.

A careful inventory results in the following: Printing, paper and unfinished work, $3,281.65; Printing Machinery, $16,000.00; Bindery, stock and unfinished work, $2,181.68; Bindery Machinery, $10,000.00; Expense, stationery, etc., on hand, $125.00; Office Equipment, $500.00; Rent, one month due and unpaid, $125.00.

He makes the statements and finds the net loss to be $5,237.53. Make the Financial, and Profit and Loss statements to ascertain if this is correct. He sells the Printing and Bindery Machinery, also all stock and unfinished work for inventory price, less 15 per cent, receiving one-third cash, one-third note due in 60 days, and balance note due in 90 days. He also collects $1,500.00 from Accounts Receivable. He sends each creditor a check for 45 per cent of his claim. (The creditors are those persons whom the corporation owes, and the bank holding the notes shown by the Notes Payable account.) What amount will each receive?

11. W. D. Burkhart is conducting a restaurant at Fifth and Cedar Streets under the name of "The Home Restaurant." The business is incorporated with a capital stock of $2,500.00, consisting of 250 shares at $10.00 per share. W. D. Burkhart owns 130 shares, H. F. Ritter 30 shares, C. H. Harvey 50 shares, C. L. Robinson 20 shares, and J. H. Bowen 20 shares. The business is unable to meet its obligations, and W. G. Brownfield is appointed receiver. The books are in balance and show the following:

Capital Stock Cr., $2.500.00; Cash, Dr. $129.65; Fixtures, Dr. $3,256.80; Reserve for Depreciation of Fixtures, Cr. $325.68; Café Service, Dr. $9.681.37, Cr. $10,527.64; Expense, Dr. $1,652.40; Advertising, Dr. $534.82; Mason Bros., Cr. $279.10; W. H. Busby & Co., Cr. $298.42; Peoples' Grocery Co., Cr. $326.45; Owens & Co., Cr. $126.50; Cash Grocery Co., Cr. $371.25; Notes Payable (City National Bank) $500.00. A careful inventory shows supplies consisting of meat, lard, sugar, coffee, etc., on hand, $287.36; the business owes employees $236.50; rent, $75.00.

The creditors agree for the receiver to conduct the business until it can be sold as a going concern. Mr. Brownfield does this for one week and sells the business, consisting of fixtures, good will, etc., for $2,600.00, (the supplies on hand have all been consumed), and agrees to pay all outstanding obligations. During the week, the cash receipts were $726.42; payments were $431.87, which does not include the amount due employees at the time he took charge as receiver. After collecting for the sale, he pays all outstanding obligations, including personal accounts, notes payable, amounts due employees, himself $200.00, which is the fee allowed by the court, and $36.85 court cost. He submits to the court a detailed statement showing the condition of the business at the time he assumes charge of it, and a statement, made after all of the debts had been paid. The court orders the remaining cash distributed among the stockholders in proportion to the number of shares owned.

You will do the work done by Mr. Brownfield as receiver. Use your own judgment as to the best form of statements to submit to the court. You will not need to show the required entries for the receipts and payments of cash, but your final result must be correct.

AUGUST.

A continuation of the July business introducing the Branch Store account, Agency account, the use of the accounts explained in July and the preceding sets, and other important information necessary for the successful record of business transactions.

BRANCH STORE ACCOUNT.

§ **277. The Object of this Account** is to keep a record of the transactions which affect a branch store. The branch store may be conducted in the same city or another city and under the name of the general store or under some special name. The account may be designated on the books by "Branch Store", the name under which the store is conducted, or any other descriptive name desired. Thus, the name of the account might be "Branch Store", "Main Street Store", "Dallas Store, No. 1", "South Bend Store, No. 27", etc.

The method of conducting this store and the desire of those interested determines largely the method of keeping this account. If a special set of books are kept at the branch store and all transactions entered in these, the bookkeeper of the main store would keep only one account with the branch store. If all the accounts of the branch store are to be kept by the bookkeeper of the main store, he should have the same accounts with the branch store as he has with the main store; thus if he is keeping all the accounts with the branch store, he would have to have an account on his ledger with Purchases, Sales, Inventories, Fixed Investments, General Expense, Selling Expense, etc. If a special set of books are kept in the branch store, the one account kept by the bookkeeper for the main store will be debited for the value of all property on hand at the beginning of the business, with all property transferred to the branch store or purchased for it, with all expenses paid, and credited with the sales. This account must be kept so that the books of the branch store can be proved to be correct by the result of this account.

As stated, the nature of the business and desire of those interested has more to do with the best method of keeping accounts with branch stores, and while either of the above methods are correct and may be used, yet conditions may be such that it is necessary to intermingle the two plans.

The following debits and credits are given to apply when a special set of books are kept in the branch store, and only one account is kept by the bookkeeper at the main store, all obligations being paid by the main store.

Debit the Branch Store Account:

¶ 1. For all property on hand which may be fixed investments, merchandise for sale, cash, personal accounts, notes, etc.

¶ 2. For all property transferred to the branch store out of the main store.

¶ 3. For all property purchased from others for use in the branch store.

¶ 4. For all amounts paid employees in the branch store.

¶ 5. For all amounts paid for other expenses.

Credit the Branch Store Account:

¶ 6. For all amounts received from the sale of goods, which usually include only cash, as the credit sales are not reported until collected.

¶ 7. *The Difference of the Branch Store Account,* at the close of the fiscal period, after the proper entry has been made for the value of any property on hand, shows the profit or loss made by

conducting the branch store. If the debit side is the larger, it is a loss; if the credit side, a profit. It appears on the Profit and Loss statement, being listed after the gross trading profit, if it shows a profit; and after the expense accounts, if it shows a loss.

¶ 8. *To Close the Branch Store Account.* This account is closed by the journal entry which closes the profit or loss accounts into the Profit and Loss account at the end of the fiscal period. When this entry is posted, the account is ruled with single and double red lines and footed in black ink.

NOTE.—If desired, the bookkeeper in the main store may keep the same accounts with the branch store as he does with the purchases and sales of merchandise. This is not bad practice, and if the purchases, sales, etc., are very extensive, it is the best plan. Since a branch store would be conducted only by a firm that was doing an extensive business, the conditions under which the store is conducted must govern the method of keeping the account. The account is illustrated here, that the student may understand, at least, one method of keeping accounts with branch stores.

Branch Store

191						191					
Aug.	1		J3	2058		Aug	13		C6	1165	82
			C7	5541			20		8	1209	87
	8		7	95	10		29		J5	27	50
	9		J3	539	78		31		6	32	36
	11		C7	156	20		27		C8	1239	26
	17		J4	385			31	Sund Rec Inv	J7	9126	57
	18		C9	126	50						
	24		9	15	20						
	25		J5	115	50						
			C9	162	50						
	31		J6	30	50						
		Sund Lia Inv	7	134	52						
			P13	2027	02						
			J8	1414	56						
				12801	38					12801	38
Sept	1	Inventory	✓	9126	57	Sept	1	Salaries unpaid	✓	134	52
									CJ1	100	00

Illustration No. 109. Branch Store Account.

AGENCY ACCOUNT

§ 278. **The Object of this Account** as explained here is to show a record of the transactions of the agent with the principal, when the agent is selling merchandise belonging to the principal on a commission basis, and assuming all responsibility for credit sales. The method of keeping the agency account must be determined by the nature of the contract betwen the agent and principal, and would of necessity vary with the conditions in the contract. An agent is one who acts for another, and the principal is the one for whom the agent is acting. The meaning of the word "Agent" here, is one who sells goods for another on a commission basis, and the meaning of "Principal" is the one who owns the goods that are being sold by the agent. The student must not confuse the explana-

tion given here with an account that might be kept under entirely different conditions, and is cautioned to study the conditions in the contract of the agent and principal, before determining the method of keeping the account. The following debits and credits apply to the account kept by the agent, when he sells the goods on commission and assumes all responsibility for credit sales.

Debit the Principal:

¶ 1. For all cash paid him on account of goods sold.

¶ 2. For all drafts which he may draw and accepted by us, or notes which we give him to apply on account of his goods sold.

¶ 3. For all commission on sales as per contract.

Credit the Principal:

¶ 4. For all cash sales of his goods.

¶ 5. For all credit sales of his goods.

¶ 6. *The Difference of this Account*, before the entry for the commission has been made, shows the amount due the principal for goods sold. At the close of the fiscal period, after the proper entry has been made for the commission due on sales, the difference shows the net amount due the principal. It is a liability and must appear on the Financial statement among the liabilities, being listed next in order after accounts payable.

¶ 7. *To Close the Agency Account.* This account is closed in the same manner as a personal account. If it balances, it is ruled with single and double red lines and footed in black ink. If it is made to balance, the difference is entered on the debit side in red ink, the account ruled and footed, and the balance brought down or transferred to a new page on the credit side in black ink.

NOTE.—The account kept by the principal would differ from that kept by the agent. The principal would charge the agent with all goods shipped to him and credit him with all returns. As a general rule, the selling price is fixed by the principal, hence the account on the principal's books would show the value of his goods on hand with the agent. When the agent has disposed of all of the goods, the Agency account would balance on the books of the principal. The commission paid the agent for selling the goods would be charged to a Commission account. The profit on the sales would be shown by the accounts with Merchandise.

§ 279. Analytical Statement. The Financial, Profit and Loss, and Trading statements must show the true condition of the business at the close of the fiscal period. Sometimes it is not practical to show all the necessary facts on the statement, and when this is the case, a separate analytical statement is made up showing these facts in detail. On the Financial statement, the Notes Receivable account shows the value of notes on hand, but does not show the amount of each note, the date when it is due, the signatures of the parties who are responsible for the payment, and other facts that really should be shown by the statement. The Accounts Receivable account represents the total amount due from customers, but does not show the amount owed by each customer. These should be shown on an analytical statement, which should show the name of each person, the terms and the amount due. The General Administrative Expense account shows the amount of general administrative expense for the fiscal period, but does not show the various items that represent this.

A separate analytical statement should be made showing as nearly as possible the various expenses and the amount of each, such as light, heat, salaries, stationery, stamps, etc. In the same way, the Selling Expense account should be explained by a statement setting forth the various amounts paid for salaries, house employees, traveling men, delivery expense, etc. Sometimes these are represented by accounts on the ledger, in which case the facts are shown by the account; but it may be that those interested will want a more detailed statement of the different expenditures than is shown on these various accounts, in which case an analytical statement is necessary. Some accountants keep a special expense book arranged with columns for the different expenses, and make this up once each month from the check stub. At the end of the year the analytical statement can be made from

this book without having to check back over all of the expenditures. No special form for the analytical statement is required. The facts should be arranged so that the bookkeeper can render an analytical statement, showing any account on his books at the time the statements of the business are made, or any other time that those interested may desire it. No set of books is systematically kept unless this can be done; and the student who completes a course in bookkeeping does not understand the subject sufficiently well to accept a position as bookkeeper, unless he can prepare an analytical statement of any account on his books from the facts which created the various debits and credits. Illustration No. 110 shows an analytical statement of the General Administrative Expense account for the fiscal period ending August 31st.

Analytical Statement, General Administrative Expense

	Stationery, stamps, and office supplies on hand	79	68		
	Rent, July	150			
	Payroll, office employees	870			
	Collection charges, checks, notes and drafts	13	50		
	Postage	33	50		
	Office Supplies	31	75		
	Light and Water	5	25		
	Telegrams	1			
	Depreciation on office equipment	17	25		
	Insurance on stock and office equipment	20	63		
	Rent for August, unpaid	150			
	Total expenses General Admr. Expense, Dr.			1372	56
	Less stationery, stamps, etc., on hand			82	65
	Net expenses per Profit and Loss statement			1289	91

Illustration No. 110. Analytical Statement, August 31.

§ **280. A Schedule or an Exhibit** is a list of the property represented by any account shown on the Financial Statement. These schedules or exhibits are usually designated by letter, (A, B, C, etc.), and accompany the statement as proof of its correctness. Thus the owner of the business may require a receipt from the bank showing that the amount of money represented by the cash account, is on deposit; a list of the goods in stock to show the merchandise represented by the Inventory account; a list of the notes represented by the Notes Receivable account, which should show the face value of each note, date, time, signature of parties, etc.; a list of the personal accounts which should show the name of each person, address, amount due from each, and if desired, when due; a list of the property on hand represented by the fixed investment accounts; lists of other property represented on the statement, such as Real Estate, Stocks, Bonds, Insurance, etc. The bookkeeper must be prepared to make these schedules from the record on his book, hence should keep his books so that all the required facts are shown: it is possible that the inventory would not be represented on the books, but it would be recorded on the inventory book, which is auxiliary to the regular books.

FINANCIAL STATEMENT, J. A. WHITNEY & CO., AUGUST 31, 191

RESOURCES					
Cash in Merchants National Bank,	2436.26				
Imprest Fund in cash drawer	20.00	2·56	36		
Inventory, Aug. 31, 191		31261	78		
Notes Receivable,		2988	99		
Real Estate,		1250	00		
Accounts Receivable, (Trade Customers)	10997.99				
Less Reserve for Bad Debts,	222.84	10775	15		
Total Current Assets,				48732	28
Office Equipment,	500.00				
Less Depreciation,	42.25	457	75		
Store Fixtures,	350.00				
Less Depreciation,	28.25	301	75		
Delivery Equipment,	3018.00				
Less Depreciation,	167.82	2850	18		
Total Fixed Investments,				3609	68
J. C. Bell,		487	15		
P. C. C. & St. L.		10	95		
Insurance,		191	25		
Good Will,		5079	29		
Treasury Stock,		500	00		
Sundry Resource Inventories					
Branch Store (Inventory)	9127.65				
Rent of house, 216 Cherry St.,	27.50				
Stamps, stationery, etc, on hand,	82.65				
Advertising matter on hand,	119.65				
Warehouse supplies,	63.75	9421	20	15689	84
Total Resources,				68031	80
LIABILITIES					
Notes Payable,		5014	28		
Accounts Payable, (Trade Creditors)		17953	02		
Sundry Liability Inventories,					
Freight Bill unpaid,	340.29				
Rent for August,	150.00				
Pay Roll, (Branch Store, 5 days)	135.42				
J. C. Bell's expenses,	87.65				
Garage bill and board for horses,	122.50	835	86		
Total Liabilities,				23803	16
Present Capital,				44228	64
Capital Stock issued,				41000	00
Net Gain for current fiscal period,				3228	64
Distribution,					
Dividend No. 1, 3%,		1215	00		
Surplus Account,		2013	64		
		3228	64	3228	64

Illustration No. 111. Financial Statement, August 31st.

TRADING, AND PROFIT AND LOSS STATEMENT, J. A. WHITNEY & CO., AUG. 31, 191

RETURNS					
Sales,		20981	72		
Less rebates and returns,	421.32				
" Sales Discount,	166.47	587	79		
Net returns from merchandise sold,				20393	73
COSTS					
Inventory, (Mdse. on hand July 2d)	16606.05				
Add Purchases,	29837.52				
" Freight In,	954.32	47397	89		
Deduct rebates and returns,	169.32				
" Purchases Discount,	568.09	737	41		
Net cost of goods purchased,		46660	48		
Less inventory, August 31st,		31261	78		
Net cost of goods sold,				15398	70
Gross Trading Profit,				4995	03
OTHER PROFITS					
Branch Store,		1444	43		
Real Estate Expense and Revenue,		55		1499	43
Total Profits,				6494	46
EXPENSES					
General Administrative Expense,		1143	76		
Selling Expense,					
Salaries in Selling Department,	567.39				
Freight Out,	43.85				
Advertising,	173.91				
Traveling Expense,	568.30				
Warehouse Expense,	329.70				
Delivery Expense,	402.79	2085	94		
Total Expenses		3229	70		
OTHER LOSSES					
Interest,	13.32				
Surplus Account,	22.80	36	12		
Total Losses,				3265	82
Net Gain for current fiscal period,				3228	64
Distribution,					
Dividend No. 1,		1215			
Surplus Account		2013	64		
		3228	64	3228	64

Illustration No. 112. Trading, and Profit and Loss Statement, August 31st.

§ 281. **The Statement of the Business** for a corporation does not differ from that made for an individual or partnership, except in the manner of closing, unless the law under which the corporation was created, required a special form. As stated in § 78, a statement of the business must show the resources, liabilities, present capital, profits, losses, and the net gain or loss. These should be shown in detail on the Financial, Trading and Profit and Loss Statement.

By referring to illustration No. 111, the student will note that the arrangement of the Financial Statement is the same as that shown in previous illustrations, except more detailed information is given. If desired, the value of the property belonging to the branch store may be listed under the current resources instead of the sundry resource inventories. The difference between the total resources and total liabilities is the capital of the corporation. The difference between this and the capital stock issued is the net gain for the current fiscal period. If the surplus account represents a part of the profits from a preceding fiscal period, this would be deducted from the difference between the present capital and the capital stock issued, in order to ascertain the net gain for the current fiscal period. The distribution of the gain is shown last. At this time, 3% is closed into Dividend No. 1 account, and the remainder into Surplus account. The undivided profits may be closed into a Surplus account, Undivided Profits account or a Sinking Fund account. The board of directors usually designates the distribution of this.

By referring to illustration No. 112, the student will note that the form of the Trading and Profit and Loss statement is the same as that he has been using, except more detailed information is given. The expenses are divided into the operating and the selling expenses, the total of each being shown. At this time the Surplus account represents miscellaneous losses and gains charged and credited to it during the fiscal period. If it has represented a part or all of the undivided profits of the preceding fiscal period, it would not be considered as a loss or gain, but be deducted from the total net gains in order to ascertain the net gain for the current fiscal period, as explained above. The same distribution is shown on both statements, to prove the correctness of each. The board of directors may require schedules or exhibits (§ 280) to represent the property or obligations shown on the Financial Statement and analytical statements (§ 279) to show detailed information relative to various accounts represented on the Trading and Profit and Loss statement.

§ 282. **Closing the Ledger for a Corporation.** The ledger is closed by journal entries, as explained in § 200 and illustrated in illustrations Nos. 71 and 72. It requires two distinct entries—one to close those accounts affecting the Trading statement, and the other to close those accounts affecting the Profit and Loss statement. Each account having a debit balance that affects the Trading statement is credited, and the Trading account debited; each account having a credit balance is debited, and the Trading account credited. The Profit and Loss account is credited with the difference, which is the gross trading profit. Each account having a credit balance that affects the Profit and Loss statement is debited, and the Profit and Loss account credited; each account having a credit balance is debited, and the Profit and Loss account credited. The difference is credited to the Dividend No. 1 account, and the Surplus account—the former with the amount of the dividend to be declared, and the latter with the undivided profits.

After these entries have been posted and the various accounts ruled with single and double lines and footed with black ink, two entries are made to close the Sundry Resource Inventories and Sundry Liability Inventories accounts into the proper service accounts, as explained in § 200.

§ 283. **Proof Sheet.** After the ledger has been closed, as explained in §§ 200 and 282, a Proof Sheet is made from the accounts in the general ledger. This is made to prove that the ledger is in balance after the closing entries have been posted. It will contain all the accounts shown on the Financial statement, except those represented by the Sundry Resource Inventories and Sundry Liability Inventories account. These will appear on the Proof Sheet in the proper service accounts. The bookkeeper can not afford to take it for granted that his ledger is in balance after it has been closed. Since the Proof Sheet is the only absolute evidence he has that it is in balance, this must always be made before any entries for transactions that occur in the next fiscal period have been posted.

EXERCISES IN JOURNAL ENTRIES AND STATEMENTS—CORPORATION.

EXERCISE No. 76. 1. F. E. Lakey, N. B. Stone and F. G. Nichols are engaged in the wholesale hardware business, the firm being conducted as a partnership. At the close of the fiscal period, June 30th, 1911, after the books are closed their capital accounts are credited as follows: F. E. Lakey, Cr. $12,642.91; N. B. Stone, Cr. $7,624.29; F. G. Nichols, Cr. $8,264.32. They decide to incorporate the business with a capital stock of $50,000.00, consisting of 5,000 shares, par value $10.00 per share. The partners accept 3,100 shares, for their interest and good will in the business, distributed as follows: F. E. Lakey, 1,400; N. B. Stone, 800; and F. G. Nichols, 900. In addition to this, they have sold the following stock: H. O. Warren, 300 shares, paid for with check; A. B. Wright, 200 shares, paid for with check; W. H. Drew, 250 shares, one-half paid for with check, and a note due in sixty days for the other half; C. O. Milton, 850 shares, paid for by real estate valued at $8,000.00, balance to be paid for on demand; A. H. Mayo, 300 shares, paid for with check.

Make the required entry for changing the partnership to a corporation, using the cash book and journal.

2. Robert Brown is employed by the Central Hardware Co., and has purchased two shares of their capital stock at the par value of $100.00 per share, this purchase being made with the understanding that the stock is to be purchased by the company if he should at any time leave their employ. June 30th he decides to resign and they give him a check for the par value of his stock.

Make the entry the bookkeeper for the corporation would make on his cash book.

3. The bookkeeper for the Union Grocery & Mfg. Co. makes the Financial, Trading, and Profit and Loss statements at the close of the fiscal period, June 30, 1911, from the following facts:

TRIAL BALANCE: Capital stock, Cr. $25,000.00; Sales, Dr. $115.65, Cr. $37,421.96; Purchases, Dr. $26,542.11, Cr. $318.74; Inventory, Dr. $18,342.97; Sales Discount, Dr. $427.36, Cr. $20.00; Purchases Discount, Dr. $15.27, Cr. $527.52; Freight In, Dr. $516.40; Manufacturing Department, Dr. $9,642.79, Cr. $10,211.52; Plant and Machinery, Dr. $5,000.00; Reserve for Depreciation of Plant and Machinery, Dr. $87.65, Cr. $100.00; Office Equipment, Dr. $652.75; Reserve for Depreciation of Office Equipment, Cr. $32.68; General Administrative Expense, Dr. $1,875.50, Cr. $56.40; Selling Expense, Dr. $2,852.79, Cr. $54.00; Freight Out, Dr. $61.75; Interest, Dr. $86.50, Cr. $72.34; Insurance, Dr. $162.50; Notes Receivable, Dr. $5,671.25; Notes Payable, Cr. $3,500.00; Accounts Receivable, Dr. $5,427.80; Accounts Payable, Cr. $3,429.56; Surplus, Dr. $219.65, Cr. $518.50; Reserve for Bad Debts, Cr. $211.55; Sundry Resource Inventories, Dr. $1204.11; Sundry Liability Inventories, Cr. $162.50; Cash, Dr. $2732.47.

INVENTORY: Salable merchandise on hand, $14,269.87. A dividend of 4% is declared, and the balance of the profit credited to the Undivided Profit account.

Make the Financial, Trading, and Profit and Loss statements. The Surplus account represents miscellaneous losses and gains for the current fiscal period.

4. Rule a cash journal similar to illustration No. 116, with columns for the following accounts: Cash, Dr. and Cr.; General Ledger, Dr. and Cr.; Sales Ledger, Dr. and Cr.; Sales Discount, Dr.; Purchases, Dr. and Cr.; Sales, Dr. and Cr.; Interest, Dr. and Cr.; General Administrative Expense, Dr.; Selling Expense, three debit columns as follows: Salaries, Delivery Expense, and Warehouse Expense. Record the following transactions in this book according to instructions given in § 288, ¶¶ 1—22.

July 1st. Balance on hand, $8,654.95; 1st, gave Robertson Bros. a check for $316.55, in payment for invoice of this date; 2d, received a sixty-day note for $376.55 from A. R. David on account, less $3.65 interest to maturity (discount on the note); 2d, gave A. H. Moses a check for $83.33, in payment of July rent; 2d, gave the Brown Manufacturing Co. a check for $416.80, in payment for invoice of this date; 2d, received from J. M. Waterson & Co. a check for $216.55, in full of account, less $2.15 discount (the total of the check and discount is entered in the Sales Ledger, Cr. column); 3d, received from Mason Bros. a check for $327.40, in payment for note, $325.00, and interest on the same; 3d, gave Peter Heister a check for $165.50; $150.00 to pay for shelving, and $15.50 for repairs

in the warehouse; 5th, received checks as follows: W. H. Massey for $192.65, in payment for a cash sale; R. J. Robey for $212.50, in payment for note, $210.00, and interest, $2.50; Johnson Bros. $300.00, to apply on account, which is subject to 3% discount. (These three checks can be entered on the same line, the name of the customer being written in the Name of the Account column.) 6th, credit sales for the week, per sales book, $1,865.42; 6th, Adams Bros. have returned two barrels of flour at $5.50 per barrel, and a credit bill has been sent for the amount; 6th, withdrew from the bank $275.00, for pay roll, as follows: Officers and bookkeepers' salaries, $125.00 (G. A. Exp.); clerks in the selling department, $75.00 (S. E. Salaries); shipping and receiving clerks, $50.00 (S. E. Warehouse); drivers, $25.00 (S. E. Delivery).

Foot each column and prove cash. The total of the debit columns must equal the total of the credit columns.

July 8th, received $25.00 from W. H. James, in payment for a second-hand desk; 8th, gave C. H. Bradford credit for a note of $465.25, and interest on the same to maturity, $5.62, and allowed him a 3% discount on the amount of the payment. (Mr. Bradford gets credit for the face of the note, the interest, and the discount on the total of the two in the Sales Ledger column.) 9th, received checks as follows: C. L. Savage, $162.50 on account; D. L. Taylor, $251.37, in payment for a cash sale; 9th, gave Borches & Co. a check for $927.65, in payment for invoice of this date; 10th, returned to Robertson Bros. four barrels of granulated sugar, 1,362 pounds purchased on the 1st, and received their check at $5.25 per hundred; 11th, gave the Underwood Typewriter Co. a check for $100.00, in payment for a new typewriter; 12th, received checks as follows: R. A. Swaggarty, $211.56, in part payment of a bill subject to 3% discount; A. L. McDonald & Son, $215.65, $195.65 in payment for a cash sale and $20.00 for a showcase; 12th, W. W. Woodruff returned two boxes of tobacco, 82½ pounds, at 42c, and a credit bill has been sent for the amount; 13th, paid $20.00 for stamps (G. A. Exp.); 13th, withdrew a sufficient fund from the bank for the pay roll of the week (see entry on the 6th for the amount and columns affected); credit sales for the week, per sales book, $1,427.62.

Foot all the columns and prove cash. The total of all the debit columns must equal the total of all the credit columns.

5. The Globe Clothing Co., a corporation with a capital stock of $50,000.00, all of which has been subscribed and paid for, desires to combine its business with that of Goldman & Levy and increase the capital to $75,000.00. After the bookkeeper for Goldman & Levy has made the statements of the business and closed the ledger, the following is the condition of accounts:

Samuel Goldman, Capital, Cr. $11,418.65; Isaac Levy, Capital, Cr. $14,327.46; Inventory, Dr. $15,276.48; Office Equipment, Dr. $525.00; Reserve for Depreciation of Office Equipment, Cr. $105.00; Store Fixtures, Dr. $1,250.00; Reserve for Depreciation of Store Fixtures, Cr. $250.00; Accounts Receivable, Dr. $7,642.65; Notes Receivable, Dr. $2,526.50; Cash, Dr. $883.63; Notes Payable, Cr. $1,000.00; Standard Woolen Mill Co., Cr. $486.50; McTeer Clothing Co., Cr. $165.78; Peoples' Clothing Co., Cr. $350.87.

All the assets of the company are accepted at their face value, except accounts receivable, from which 5% is deducted for a possible loss of bad debts. The Globe Clothing Co. assumes all obligations of Goldman & Levy. Samuel Goldman subscribes for 115 shares of the Globe Clothing Co. stock, and Isaac Levy subscribes for 135 shares. They retain the cash belonging to the company, and pay the difference, in cash, between the par value of the stock and the net value of their assets. Make the entry the bookkeeper for the Globe Clothing Co. must make on his books for this transaction.

NOTE.—The bookkeeper for the Globe Clothing Co. will have nothing to do with the settlement between Goldman & Levy or with their Capital accounts. He considers all the resources and liabilities except cash.

6. Risinger & Weick owe the Standard Manufacturing Co. $2,161.75, an account subject to 3% discount. They settle it by transferring five shares of the Standard Manufacturing Co's. stock, at a market value of $147.65 per share (par value, $100.00); Robert Dow's note for

$826.75, less 6% interest for 52 days; the Standard Manufacturing Co's. note for $500.00, with interest at 75 days, at 6%, and check for the balance.

NOTE.—Some states do not permit a corporation to purchase its own stock, except in settlement of a debt due it; and when so purchased, it must be disposed of within one year. When stock is accepted in this manner, the par value is charged to the Treasury Stock account, and the Surplus account is debited or credited.

7. December 31st, 1911, the bookkeeper for the Davis Mercantile Co., an incorporated concern, makes the Financial, Trading, and Profit and Loss statements. The following accounts affect the Trading statement:

Inventory, Dr. $8,641.92; Sales, Dr. $321.50, Cr. $12,487.65; Sales Discount, Dr. $415.40; Purchases, Dr. $9,379.62, Cr. $518.71; Purchases Discount, Dr. $36.42, Cr. $618.75; Freight In, Dr. $379.60, Cr. $32.48. INVENTORY: Salable goods on hand December 31, 1911, $10,416.75.

Accounts affecting the Profit and Loss statement are as follows: General Administrative Expense, Dr. $1,426.55, Cr. $118.75; Selling Expense, Dr. $1,627.38, Cr. $36.50; Real Estate Expense and Revenue, Dr. $162.50; Commission, Cr. $215.00; First National Bank Stock, Cr. $312.50. 1% of personal accounts, $137.65, is set aside as a reserve for possible loss on bad debts.

The company is incorporated with a capital stock of $50,000.00, consisting of 1,000 shares, at $50.00 per share. A 3% dividend is to be declared, and the balance of the profit closed into the Surplus account. Make the Trading, and Profit and Loss statements, and the journal entries to close the ledger.

8. May 14, 1911, the People's Shoe Co. purchased an invoice from the Smith, Briscoe Shoe Co. for $12,652.65. They are given a dating of October 1st, with a discount of 3% if paid within ten days from that date, and with the understanding that if any payments are made prior to the date of dating, they are entitled to the interest on the amount paid from date up to October 11th, in addition to the 3% discount. They make settlement of this invoice as follows: June 5th, $2,562.50; July 3d, $1,527.42; July 19th, $1,400.00; August 5th, $587.65; September 1st, $1,527.60; September 15th, $842.75; October 11th, their check for the balance. Ascertain the value of each payment and the amount of the check.

9. The bookkeeper for the Sanitary Plumbing Co. is required to make a statement of the business at the end of the fiscal period, ending June 30th, 1912. After making the required journal entries at the close of the fiscal period, his Trial Balance is as follows:

Capital Stock, Cr. $5,000.00; Cash, Dr. $3,630.87; Material, Dr. $9,654.29, Cr. $8,629.52; Contracts, Dr. $10,587.40, Cr. $12,837.64; General Expense, Dr. $1,672.59; Delivery Equipment, Dr. $350.00; Depreciation of Delivery Equipment, Cr. $35.00; Office Equipment, Dr. $250.00; Reserve for Depreciation of Office Equipment, Cr. $12.50; Insurance, Dr. $300.00, Cr. $150.00; Personal Accounts, Dr. $1,126.48, Cr. $906.97. The present value of material on hand is $3,629.45. The board of directors have decided to declare a dividend of six per cent, the balance of the profit to be closed into the Surplus account.

You will do the work required of the bookkeeper. Material and Contracts are both profit accounts.

SEPTEMBER.

A continuation of the July and August business, introducing accounts with manufacturing costs, the time book, pay roll and the cash journal.

ACCOUNTS USED IN THE MANUFACTURING BUSINESS.

§ **284. The Person or Firm** who manufactures the merchandise sold can not ascertain the cost in the same manner as the merchant who buys merchandise for sale. It is necessary to keep special accounts showing the amounts paid for raw material, labor, etc., that enter into the cost of the articles sold. There are two methods of keeping these accounts, depending upon the nature of the business. One account may be kept, which is charged with all amounts that enter into the cost of articles manufactured, or accounts may be kept with Labor, Raw Material, Manufacturing Expense, and such other special accounts as may be necessary. In either case, it is necessary to have at least two separate accounts, one to show the cost of property purchased for use in manufacturing the articles to be sold, and the other the cost of material, labor, manufacturing expense, and returns from sales.

The object of introducing these accounts at this time is to illustrate to the student one method of keeping them. A more detailed explanation of the various accounts that enter into the cost of manufacturing, together with the best method of keeping a record of these to show the cost of the articles manufactured, is explained in the next set.

In this set the manufacturing of candy is introduced as a department of the business, and only two accounts will be kept to show the record of the transactions affecting this department, one with Plant and Machinery, and the other with Candy.

PLANT AND MACHINERY ACCOUNT.

§ **285. The Object of this Account** is to keep a record of all property necessary to conduct the candy department, which includes shelving, tables, desks, machines, pullies, motors, belts, etc. It is one of the fixed investments and is debited and credited in exactly the same manner as the Office Equipment account, as described in § 162. It is necessary to have a Reserve for Depreciation account to take care of the decrease in value caused by wear and tear.

Debit the Plant and Machinery Account:

¶ 1. For the cost value of all property, used in the manufacturing department on hand at the beginning of the business or fiscal period.

¶ 2. For the cost value of all property purchased during the fiscal period, either to take the place of that which has been discarded or in addition to that already charged to the department.

Credit the Plant and Machinery Account:

¶ 3. For the cost price of any property sold, the value of which was charged to this account. (If the price received is less than that given, the difference is charged to the Reserve for Depreciation account.)

¶ 4. For the cost price of any article replaced, destroyed, or discarded. (At the same time debit the Reserve for Depreciation account.)

¶ 5. *The Balance of this Account* will, at all times, show the cost value of all property on hand used in the manufacturing business. It appears on the Financial statement with the fixed investments, the reserve for depreciation being deducted to show the present value.

¶ 6. *To Close the Plant and Machinery Account.* This account is not closed, unless it is desired to transfer the balance to a new page or bring it down on the same page. When closed for this purpose, the difference is entered in red ink on the credit side, the account ruled with single and double red lines, footed with black ink, and the balance transferred to a new page, or brought down on the same page on the debit side with black ink.

Plant & Machinery

191 Sept	1		CJ1	8000	191 Sept	20		CJ3	150
	20		CJ3	200					

Illustration No. 113. Plant and Machinery Account.

RESERVE FOR DEPRECIATION OF PLANT AND MACHINERY ACCOUNT.

§ 286. **The Object of this Account** is to show the decrease in value of property purchased for use in the manufacturing department on account of its use. It is exactly the same nature as the Reserve for Depreciation of Office Equipment account, as described in § 163.

Debit Reserve for Depreciation Account:

¶ 1. For the cost of any article charged to the Plant and Machinery account and subsequently replaced.

¶ 2. For the difference between the cost and selling price of any article sold, the value of which was charged to the Plant and Machinery account at the time it was purchased.

¶ 3. For the cost of any article charged to the Plant and Machinery account and subsequently destroyed or discarded.

Credit Reserve for Depreciation Account:

¶ 4. At the close of each fiscal period with the amount of depreciation as designated by those interested in the business. (The Manufacturing Expense or Candy account is charged with this depreciation, because it is a part of the expense in manufacturing the articles sold.)

¶ 5. *The Balance of this Account* will show the net amount reserved for depreciation of property for use in the candy department. It is deducted from the cost price of the plant and machinery, as shown by the balance of that account, this deduction being shown on the Financial statement.

Reserve for Depreciation of Plant & Machinery

191 Sept	20		CJ3	50	191 Sept	30	3%	CJ3	246

Illustration No. 114. Reserve for Depreciation of Plant and Machinery Account.

¶ 6. *To Close the Reserve for Depreciation of Plant and Machinery Account.* This account is not closed, unless it is desired to bring the balance down on the same page or transfer it to a new page. When closed for this reason, the difference is entered on the debit side in red ink, the account ruled with single and double red lines, footed with black ink and the balance transferred to a new page, or brought down on the same page on the credit side with black ink.

CANDY DEPARTMENT ACCOUNT.

§ 287. **The Object of this Account** is to represent the cost of manufacturing candy and the return from sales of the same. It is better practice to have separate accounts to show the cost of the goods manufactured, but many accountants keep only one account, especially when the manufacturing is only a department of the general business.

Debit the Candy Department Account:

¶ 1. For the cost of all raw material (sugar, glucose, chocolate, colorings, cartons, buckets, barrels, etc.), on hand at the beginning of the business or fiscal period.

¶ 2. For the cost of all raw material purchased for use in manufacturing candy.

¶ 3. For all freight or express paid on raw material.

¶ 4. For all amounts paid for labor in the candy (manufacturing) department.

¶ 5. For the salary of the superintendent, which is a part of the manufacturing expense.

¶ 6. For all amounts paid for rent, license, telephone, insurance, and other expenses of the candy (manufacturing) department, which is a part of the manufacturing expense.

¶ 7. For the depreciation on plant and machinery, which is also a part of the manufacturing expense.

¶ 8. For any discount deducted by customers for prompt payment of bills for merchandise sold from this department. If the exact amount can not be determined at the time the remittance is received, a journal entry may be made at the end of the month to adjust this.

Credit the Candy Department Account:

¶ 9. For the total credit and cash sales as shown by the sales column in the cash journal at the end of the month. If a cash journal is not kept, the credit sales would be posted from the sales recapitulation sheet, and the cash sales posted from the general or special column in the cash book, which represents cash sales.

¶ 10. For all discounts deducted for prompt payment on property purchased for use in the candy department. If the exact amount can not be determined at the time the remittance is sent, an adjusting entry may be made at the end of each month.

¶ 11. For the value of raw material or manufactured goods on hand at the end of the fiscal period. (At the same time debit the Sundry Resource Inventories account.)

¶ 12. *The Difference between the two sides of this Account,* after the entry for property on hand at the close of the fiscal period has been made, will show the net profit from the sales of candy Prior to this entry, the debit side will show the costs and the credit side will show the returns from sales.

¶ 13. *To Close the Candy Department Account.* This account is closed by the journal entry that closes the accounts affecting the Profit and Loss statement into the Profit and Loss account. When this entry is posted, the Candy Department account will balance, and is ruled with single and double red lines and footed in black ink.

Candy Department

191 Sept.	30	Labor	CJ3	567	85	191 Sept.	30	Sales	CJ3	2649	52
		Raw Material		2619	42			Sund. Res. Inv.		1176	50
		Mfg. Expense		215	78						
		Profit & Loss		422	97						
				3826	02					3826	02
Oct.	1			1176	50						

Illustration No. 115. Candy Department Account.

§ 288. **Cash Journal.** This is a book of original entry in which all the transactions are recorded. It is quite popular with bookkeepers and accountants, because it shows the complete history of the business at all times. When it is used, it is usually the only book from which transactions are posted to the general ledger, and sometimes the only book from which transactions are posted to any ledger. Other books are kept and the totals only entered in this; thus the credit sales are entered in the sales book, credit purchases in the purchases book, and, if desired, cash received from customers is entered in a special cash book. Once each day, week, or month, the totals of these books are transferred to the cash journal. The time of transferring these totals will depend largely upon the nature of the business and the desire of those interested. If a complete history of the business is to be kept in this book, the totals should be transferred at least once each week. The only reason all the transactions are not entered in this book at the time they occur instead of being posted in total, is because the data requires too much space and allows only one person to work on the books. If special books are kept with those transactions which are the most numerous, different persons can work on these, and the totals given to the general bookkeeper or cashier who keeps the cash journal.

Illustration No. 116 shows a very popular form of the cash journal. By referring to this the student will note the following columns:

¶ 1. *Cash.* Two columns are provided, one for receipts and one for payments. All cash received is entered in the debit column and cash paid in the credit column, except amounts paid from the imprest fund, which are entered in the petty cash book and are only entered in the cash journal at the time the imprest fund is renewed. The difference between the two columns provided for cash should at all times equal the amount of the cash balance. The cash columns are placed to the left, because no amounts are posted from these unless a Cash account is kept in the ledger, and then the totals only would be posted at the end of the month.

¶ 2. *Name of the Account Column.* Here is written the name of the account to be debited or credited. It is necessary to write the name of the account debited or credited, and this should be

the same as the name of the column in which the amount is entered, unless it is a general ledger account, in which case it would be the name of the account affected. If an amount affects two or more columns and neither of these is to be posted, the name of the first column only is written.

The date and L. F. Columns are placed at the left of the name of the accounts, which is the same as a regular cash book.

¶ 3. *Check Number.* This column is for the number of the check. If two or more checks are written, and only one account in the General Ledger, Purchases Ledger or Sales Ledger columns is

Cash Journal

Cash		Date	L.F.	Name of Account	Ck. No	General Ledger		Sales Ledger		Purchases Ledger	
Dr	Cr					Dr.	Cr.	Dr.	Cr.	Dr	Cr
		1	✓	Balance $2286.76							
3000				Branch Store			10000				
				Peoples Gro. Co. Stock		5000					
	407 92			Branch Store	Nos 70-1-2-3	135 42					
500				Cash Grocery Co					136 43		
44 22				Aiken & Brown					324 83		
3981 58	340 29 2913 21			Freight In Dep 9/1 $3981.58	No 76	340 29 14690 71	190 50		902 44		
	869 64	17		National Biscuit Co.	No 105					887 39	
	16 50	18		Stubblefield & Stewart	No 106			16 50			
				Boyd & Fagg					9 87		
	107 51			Notes Receivable	No 107						
		19		Arbuckle Bros.						1 25	
		25		American Tobacco Co.						974 87	
1409 52				Scruggs & Davis					417 77		
	1958 90	29	✓	Notes Payable	Nos 120-1-2						
	20		✓	Imprest Fund	No 84						
				Sales & Purchases for month				10276 49			10079 64
23571 98	23187 09					16340 24	21087 70	10418 41	8106 03	17746 32	10079 64

Illustration No. 116. Cash Journal.

affected, the checks may all be entered on one line. If a check requires more than one line, it is not necessary to repeat the number, as the same check number first written applies to all entries until the next check number is entered.

¶ 4. *General Ledger.* Two money columns are provided; one for debits, and the other for credits. When a transaction affects an account that is not represented by one of the special columns, it is necessary to enter it in the Gen-

Cash Journal

Purch. Disct Cr	Sales Disct Dr	Purchases Dr	Purchases Cr	Sales Dr	Sales Cr.
	1 93				365 50
	6 50				
	13 25				365 50
17 75					
					413 24
			1 25		
	8 25				
		231 60			
				1 25	
		7167 12			7503 45
315 64	134 45	8217 06	148 95	154 83	11228 34

Illustration No. 116. Cash Journal. (Cont'd.)

TEAR OFF HERE.

eral Ledger column, because it will have to be posted to that ledger.

¶ 5. *Sales Ledger.* Two money columns are provided for this account; one for debits, and the other for credits. When cash is received from a customer in full or on account, the amount is entered in the Cash Dr. column and the Sales Ledger Cr. column. If discount is allowed, the amount with which the customer's account is credited, which includes the cash and

Cash Journal

Baking Powder		Candy Department.			
Dr.	Cr.	Labor Dr.	Raw Mat. Dr.	Mfg Exp. Dr.	Sales Cr.
			2000		
	40				229 38
		167 75	119 55	25	
	668		2912 52		2105 04
1382	1382	689 98	5307 72	231 80	3748 45

Illustration No. 116. Cash Journal. (Cont'd.)

discount, must be entered in the Sales Ledger Cr. column. If a charge is made to a customer the amount is entered in the Sales Ledger Dr. column. The amounts entered in the Sales Ledger Dr. column are the totals from the sales book and any other entry that affects the debit side of a customer's account.

¶ 6. *Purchases Ledger.* Two money columns are provided for this account; one for debits, and the other for credits. When a creditor is paid, his name is written in the Name of the Account column, and the amount with which he is charged is entered in the Purchases Ledger Dr. column.

Cash Journal

Notes Rec.		Notes Pay.		Interest		G.A. Exp.	Salaries	Adv'ing	Trav. Exp.	Frt. Out.	Del. Exp.	Ware. Exp.	Explanation
Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Dr.	Dr.	Dr.	Dr.	Dr.	Dr.	
2000													Sold branch store
													Rec'd cash $3000.00
													Notes $2000.00 Stock $5000.00
						1 50					122 50		Sund. Lia. Inven.
													Currency $500.00
273 65				4 10	3 64								Ck. & note in full a/c
273 65				4 10	3 64	1 50					122 50		Freight bill 7/5-8/31
													Protested check
										9 87			Credit for freight
800					9 87								N. R.B. No. 23
													10 cases Coffee returned
			974 87										
	1000												R.H. Ingersoll note
		1000				217 50	110				42 50	45	
						10 50		4 50				3 75	
5251 61	3124 73	3603 67	12344 80	176 06	56 60	627 60	220	30	324 51	78 48	208 25	115	

Illustration No. 116. Cash Journal. (Concluded.)

The amount of cash paid him is entered in the Cash Cr. column, and the number of the check in the Check No. column. The amounts entered in the Purchases Ledger Cr. column are the totals from the purchases book, and any other transactions that affect the credit side of a creditor's account.

¶ 7. *Purchases Discount Cr.* Only one money column is provided for this, because there are very few transactions in which the Purchases Discount account is debited. When these occur, the name of the account is written at the left and the amount entered in the General Ledger Dr. column. When we pay a creditor for an invoice which is subject to discount, the amount of cash paid him is entered in the Cash Cr. column, the discount in the Purchases Discount Cr. column, and the amount with which he is charged is entered in the Purchases Ledger Dr. column.

¶ 8. *Sales Discount Dr.* Only one column is provided for this, because there are very few transactions in which the Sales Discount account is credited. In case such a transaction does occur, the credit must be entered in the General Ledger column. If the amount received from a customer is subject to discount, the full amount with which he is credited is entered in the Sales Ledger Cr. column, the cash received is entered in the Cash Dr. column, and the amount of the discount, in the Sales Discount Dr. column.

¶ 9. *Purchases.* Two money columns are provided for this account; one for debits, and the other for credits. All cash purchases, and the totals from the purchases book, which represents credit purchases, are entered in the Purchases Dr. column. All merchandise returned by us, and rebates allowed us for damaged goods, shortages, overcharges, etc., are entered in the Purchases Cr. column.

¶ 10. *Sales.* Two money columns are provided for this account; one for debits, and the other for credits. The Sales Dr. column represents all goods returned to us by customers, all rebates allowed by us for damaged goods, shortages, overcharges, etc. The Sales Cr. column represents all goods sold, either for cash or on credit.

¶ 11. *Baking Powder.* Two money columns are provided for this account; one for debits, and one for credits. It is debited for all amounts paid to the baking powder company (Standard Mfg. Co.), and for the value of all baking powders returned by customers. It is credited for all sales of baking powders, either for cash or on time.

¶ 12. *Candy Department.* Four columns are provided for this account; three for the debits, and one for the credits. Amounts paid for Labor are entered in the first; for Raw Material in the second; and for Manufacturing Expense in the third; amounts received from the Sales of candy are entered in the fourth.

¶ 13. *Notes Receivable.* Two money columns are provided for this account; one for debits, and the other for credits. When a note or accepted draft is received, the amount is entered in the debit column. When a note or acceptance is paid, the amount is entered in the credit column.

¶ 14. *Notes Payable.* Two money columns are provided for this account; one for debits, and the other for credits. When a note is signed or a draft accepted by us, the amount is entered in the credit column. When a note or draft is paid by us, the amount is entered in the debit column.

¶ 15. *Interest.* Two money columns are provided for this account; one for debits, and the other for credits. When a transaction affects the Interest account, the amount is entered in the debit or credit column, according to the nature of the transaction.

¶ 16. *General Administrative Expense.* Only one column is provided for this, because there are very few transactions in which this account is credited. If such do occur, the name of the account would have to be written at the left, and the amount entered in the General Ledger Cr. column. All amounts paid for general administrative expense are entered in this one column.

¶ 17. *Selling Expense Dr.* Six columns are provided for this, each of which is debited. Amounts paid for Salaries in the selling department are entered in the first; for Advertising in the second; for Traveling Expense in the third; for Freight Out in the fourth; for Delivery Expense in the fifth; and for Warehouse Expense in the sixth.

¶ 18. *Explanation Column.* At the extreme right is a column for special explanations. It is

not necessary to use this in every transaction, but sometimes a word of explanation is necessary in order to make the record clear to the auditor. Some bookkeepers use this column for the name of the account for which a special column is provided. In this set, the student will use this column for explanation only, and no amounts will be entered in the special columns, except where the name of some account affected by the transaction is entered in the Name of the Account column.

¶ 19. *In General.* If a transaction affects cash, the amount received or paid is entered in the Cash Dr. or Cash Cr. column at the left, and in one or more of the many columns at the right. The total of the amounts entered in the debit columns must always equal the total of the amounts entered in the credit columns. If it is necessary to enter an amount in the General Ledger, Sales Ledger or Purchases Ledger column, the name of the account debited or credited is written in the Name of the Account column. If the transaction does not require entries in any of these ledger columns, but is entered in one or more of the special columns to the right of them, the name of the first column is written in the Name of the Account column and a check mark placed in the L. F. column to indicate that it is not to be posted. If a transaction does not affect cash, the name of the account is written in the Name of the Account column, as explained, and the debits and credits entered in the proper columns at the right. Use as few lines as possible in recording a transaction. Usually only one line is sufficient. If it is a complicated transaction, a brief description can be given in the Explanation column at the extreme right.

¶ 20. *To Prove Cash with the Cash Journal.* The difference between the Cash Dr. and Cash Cr. columns must be the cash balance. This can not be accepted as correct unless all the columns prove; hence, each time the bookkeeper proves cash, he must foot all the columns and add the debits and credits; the total debits must be the same as the total credits. If the work proves, the difference between the two Cash columns may be accepted as the cash balance. This balance should be verified by adding the cash on hand to the amount in the bank.

¶ 21. *Method of Keeping the Account with the Bank.* A special column may be provided for an account with the bank, but this is not necessary if the bookkeeper keeps a copy of all the deposits. The best method is to list the checks on the deposit ticket in the same order as they are arranged in the Cash Dr. column. As each check is entered on the deposit ticket, it is checked on the cash journal to show that the amount corresponds with the entry. When all the checks have been listed on the deposit ticket, all the checks entered in the Cash Dr. column will have been checked. If any currency has been received, the total amount of currency to be deposited must equal the remaining items not checked; when this proves, the items are checked in the same manner as the checks. If all the money is deposited in the bank, all the amounts entered in the Cash Dr. column will have been checked, and the difference between the Cash Dr. and Cash Cr. columns is the bank balance. If all checks and money have not been deposited, the total of these must be the same as the total of the amounts not checked in the Cash Dr. column; hence, the cash in the bank will be the difference between the Cash Dr. and Cash Cr. columns, less the amount of checks and money on hand. The bookkeeper must ascertain the amount on hand from the money and checks, and must not figure his bank balance by subtracting the total of the unchecked amounts from the cash balance.

When an imprest fund is kept, the cash balance will always be this amount larger than the balance in the bank, even though all checks and money have been deposited. Thus, if the imprest fund is $20.00, the cash balance will always be $20.00 greater than the amount in the bank, because it is assumed that this amount is in the cash drawer. The cash balance, the bank balance, and the date and amount of each deposit should be entered in the Name of the Account column with small pencil figures, as shown in illustration No. 116.

¶ 22. *To Post from the Cash Journal.* Each amount entered in the General Ledger Dr. column is posted in the general ledger, to the debit side of the account written on the same line with it; each amount written in the General Ledger Cr. column is posted in the general ledger, to the credit side of the account written on the same line with it. Each amount written in the Sales Ledger Dr. column is posted in the sales ledger, to the debit side of the account written on the same line with it; each amount

entered in the Sales Ledger Cr. column is posted in the sales ledger, to the credit side of the account written on the same line with it. Each amount entered in the Purchases Ledger Dr. column is posted in the purchases ledger, to the debit side of the account written on the same line with it; each amount written in the Purchases Ledger Cr. column is posted in the purchases ledger, to the credit side of the account written on the same line with it. The page of the account in the ledger is placed in the L. F. column at the left of the name of the account. No amounts are posted from the various columns to the right of these until the end of the month.

At the end of the month, the Sales Ledger account in the general ledger is debited for the total of the Sales Ledger Dr. column, and credited for the total of the Sales Ledger Cr. column. The Purchases Ledger account in the general ledger is debited for the total of the Purchases Ledger Dr. column, and credited for the total of the Purchases Ledger Cr. column. The totals of all other columns are posted to the account in the general ledger, which corresponds with the name of the column, except Selling Expense and Candy Department. The total of each column under Selling Expense is posted to the debit side of that account, each amount being posted separately, and the name of the column written in the explanation column. The Candy department is debited with the total of each of the three debit columns, and credited with the total of the one credit column, each amount being entered separately, and the name of the account written in the explanation column. The totals of the Cash columns at the left are not posted unless a Cash account is kept in the general ledger; if so, this account is debited with the total of the Cash Dr. column and credited with the total of the Cash Cr. column.

NOTE.—Some bookkeepers do not post the totals of the various columns until the end of the year, thus showing a complete history of the business on this one book. If this is done, the total of the balances in the sales ledger at the end of the month must equal the difference between the Sales Ledger Dr. and Sales Ledger Cr. columns; and the total balances of the purchases ledger must equal the difference between the total of the Purchases Ledger Dr. and Purchases Ledger Cr. columns. It is not best practice to use this method, as accounts should be kept in the general ledger for all of the accounts represented by the various columns, and the Trial Balance made from the general ledger. However, in some lines of business this method can be used to an advantage.

§ 289. Trial Balance, September 30th. There are no features included in this Trial Balance that have not already been explained. The Trial Balance is made from the general ledger, and the sales ledger and purchases ledger proved by comparing with the balance of the Sales Ledger and Purchases Ledger accounts in the general ledger.

§ 290. Statement of the Business, September 30th. As explained in preceding sets, the statement of the business consists of the Financial, Trading, and Profit and Loss statements. The difference between the resources and liabilities is the present capital of the corporation. The capital stock and undivided profit from the preceding fiscal period deducted from the present capital, gives the net profit for the current fiscal period. The difference between the profits and losses is the net profit for the current fiscal period. To this must be added the undivided profits for the preceding fiscal period, represented by the Surplus account. This sum represents the total profits, and the amount must be the same as the present capital (difference between the resources and liabilities) shown by the Financial statement less the capital stock. The statements can not be accepted as correct until the amounts agree.

§ 291. Closing the Ledger, September 30th. The ledger is closed by journal entries—one to close the accounts affecting the Trading statement into the Trading account; the other to close the accounts affecting the Profit and Loss statement into the Profit and Loss account. These entries are posted, and the accounts in the ledger ruled with single and double red lines, and footed in black ink. Two entries are then made to close the Sundry Resource Inventories account and the Sundry Liability Inventories account into the proper service accounts. When these entries are posted, the Sundry Resource Inventories and Sundry Liability Inventories accounts are ruled with single and double red lines, and footed with black ink.

§ 292. Proof Sheet, September 30th. To prove that the ledger is in balance, a Trial Balance (Proof Sheet) is made from the general ledger. The facts shown on it will be the same as those

shown on the Financial statement, except the accounts represented by the Sundry Resource Inventories and Sundry Liability Inventories accounts are now represented by the proper service accounts.

QUESTIONS.

1. Define the Branch Store account. (§ 277.)
2. For what is it debited and credited? (¶¶ 1—6.)
3. Define the Agency account. (§ 278.)
4. For what is it debited and credited? (¶¶ 1—5.)
5. Define an analytical statement. (§ 279.)
6. What accounts should be explained by an analytical statement at the close of the fiscal period? (§ 279.)
7. When accounts with customers and creditors are kept in separate ledgers, from what ledger is the Trial Balance made? (§ 280.)
8. In what respect does the Financial, Trading, and Profit and Loss statements of a corporation differ from those of a partnership? (§ 281.)
9. When all the profit is not paid out by dividend, what account represents the undivided profit? (§ 282.)
10. Why is it best to take a Proof Sheet after the ledger is closed? (§ 283.)
11. How does the manufacturer ascertain the cost of the goods manufactured? (§ 284.)
12. What two accounts are necessary in a manufacturing business? (§ 284.)
13. Define the Plant and Machinery account. (§ 285.)
14. For what is it debited and credited? ¶¶ 1—4.)
15. Why is it necessary to keep a reserve for depreciation on Plant and Machinery account? (§ 286.)
16. For what is it debited and credited? (¶¶ 1—4.)
17. How is the present value of the Plant and Machinery account ascertained? (§285, ¶5.)
18. Define the Candy Department account. (§ 287.)
19. Name three of the debits and two of the credits. (¶¶ 1—11.)
20. Define the cash journal. (§ 288.)
21. Name at least five accounts on the general ledger that should be represented by columns in the cash journal.
22. Where are the columns for cash received and paid located? (¶ 1.)
23. What is written in the Name of the Account column? (¶ 2.)
24. What is written in the Check No. column? (¶ 3.)
25. What is entered in the General Ledger column? (¶ 4.) The Sales Ledger column? (¶ 5.) The Purchases Ledger column? (¶ 6.)
26. Distinguish between the Purchases Discount and Sales Discount columns. (¶¶ 7 and 8.)
27. If a customer pays $97.00 and this is subject to discount, what amount is entered in the Sales Discount column?
28. What is entered in the Purchases column? (¶ 9.) Sales column? (¶ 10.)
29. What is entered in the Notes Receivable column? (¶ 13.) Notes Payable column? (¶ 14.)
30. Name the other columns used and explain each. (¶¶ 11, 12 and 15—17.)
31. For what is the explanation column used? (¶ 18.)
32. If a customer settles his account which is subject to discount, by a check and note, less discount, how many columns would be affected, and what would be written in the Name of the Account column? (¶ 19.)
33. Describe the method of proving cash. (¶ 20.)
34. Describe the method of keeping the bank account. (¶ 21.)
35. Describe the method of posting. (¶ 22.)

PART IV.

SINGLE ENTRY, COMMISSION AND COST ACCOUNTING.

SINGLE ENTRY.

OCTOBER.

§ 293. **Single Entry Bookkeeping** is the simplest method of keeping a record of business transactions. It requires a history of the business by means of accounts, the same as Double Entry. Usually only those accounts are kept whose balance shows a resource or a liability, and in many cases only accounts with persons. Each transaction does not affect two or more accounts having equal debits and credits, though some of them may, depending entirely upon the accounts kept. Thus, if an account is kept with Notes Receivable, and a customer settles his account by note, the Notes Receivable account is debited for the same amount as the customer's account is credited. If the transaction is a sale for a note, or on account, only the Notes Receivable or customer's account is affected, because the Merchandise account is not a resource or a liability account.

Single Entry is best defined as any method that is not Double Entry, because the application of the method varies with the wishes of the proprietor or bookkeeper. Any account kept by the Double Entry method may be used in the Single Entry method. Thus, if a detailed account of the expense of the business is desired, an Expense account may be kept. If it is necessary to keep a record of the goods purchased and sold, a Merchandise account may be kept. If a cash register is used, or there is not enough cash handled to justify the keeping of a Cash account, this may be omitted.

The above explanation is given so that the student will understand that there is really no Single Entry method of keeping books. Most business men understand that the Single Entry method means the keeping of Personal accounts only, and, as a general rule, a Single Entry set of books contains only Personal accounts.

§ 294. **Comparison.** In Single Entry the record may be made according to the wishes of those interested, and any desired accounts kept; in Double Entry the record and accounts kept must conform to certain principles, which can not be changed; the name of an account might be changed but its real meaning must remain the same. In Single Entry the bookkeeper has no check on his accuracy in posting, footing accounts in the ledger, and making the Statements of the Business; in Double Entry he knows by the Trial Balance that all items have been posted, the accounts in the ledger footed correctly, and that the Financial, and Profit and Loss statements show the correct gain. In Single Entry, those interested in the business know (without proof) that they have made or lost the amount shown by the Statement of the Business, that is, if the work is done correctly; in Double Entry they know (with proof) that the net gain or loss is correct, and know the accounts that make up this gain or loss. Neither method will prevent or detect errors in calculations. This is the reason the business man wants a bookkeeper who is accurate.

The advantages of Double Entry are so apparent that this method is used by every up-to-date business man who employs a bookkeeper, and by many who do not. While Single Entry may have an advantage in a small business, yet in most instances Double Entry would be much better. The reason Single Entry is used in many cases, is because the one who keeps the books knows nothing of the many advantages of Double Entry. The teacher, who wishes to do the most for his pupil, will teach him all the advantages of Double Entry and the disadvantages of Single Entry, and instruct him to change any Single Entry set he may have to keep to Double Entry as soon as possible.

§ 295. **Books Used.** Any book used with the Double Entry method may be used with Single Entry; but the day book, cash book and ledger are the most popular with those who claim to "know"

October 2, 191

W. H. La Rue	Cr.				1250	
Notes Payable (60 days)	Cr.				500	
Notes Payable (90 days)	Cr.				500	
Bought hardware stock for $2250.00						
Paid cash $1000.00; gave two notes $500.00						
each; due in 60 and 90 days; balance						
to paid before November 1st.						
3						
Belknap Hardware Co. Louisville,	Cr.				150	
Bought merchandise on account,						
invoice of this date.						
3						
C. L. McClure, City	Dr.				42	50
1 Eureka Stove			25			
5 kegs 8d Nails		3.50	17	50		
3						
University School, Uni. Park,	Dr.				175	
1 doz Superior Heating Stoves		13.50	162			
130 ft. Stove Pipe		.10	13			
4						
Graham Paper Co., St. Louis.	Cr.				196	42
Bot roofing paper invoice of the						
2d; 3/10, n/30.						
6						
J. C. McDaniels, City.	Dr.				20	25
1 Gas Stove			2	50		
1 Hammer				75		
2 No. 4 Simmond Saws		1.00	2			
1 Daisy Feed Cutter			14			

Illustration No. 117. Single Entry Day Book.

the latter method. Of course, they do not know any method, but only know what they want their books to show, and can get the desired results by using these three books.

§ 296. Day Book. This is a book of original entry. All transactions, except those in which cash is received or paid, are entered in this book in the order in which they occur. The two money columns do not indicate debits and credits, hence it is necessary to write Dr. and Cr. (abbreviation of debit and credit) after the name of the account. This shows to which side of the account in the ledger the amount is to be posted. Amounts to be posted are placed in the second column on the same line as the name of the account. Illustration No. 117 shows the form of day book to be used.

§ 297. Single Entry Cash Book. Any desired form of ruling may be used. The form given in illustration No. 118 shows one very popular with those who keep a cash book in connection with a Single Entry set of books. By referring to this the student will note that the ruling is similar to the ordinary journal, the receipts being entered in the first column and the payments in the second column. When the cash book is ruled at the end of the month, the balance is entered in the credit column in red ink, the word "Balance" being written at the left, the two columns ruled, and the balance brought down, as shown in illustration No. 118.

Cash Book

					Receipts		Payments	
Oct	1		C. W. Ogden, Capital	Investment	1500			
	2		W. H. La Rue	Part paym't print. plant			1000	
	5	✓	Gouffon Transfer Co	Freight and drayage			14	87
	6		W. H. La Rue	On account			150	
		✓	Expense	Employees' wages			65	40
	10	✓	Judson Harmon	5 kegs Nails $3.50	17	50		
			University School	In full	175			
	11	✓	Expense	Light, phone & stamps			24	60
	13		Graham Paper Co	In full			196	42
		✓	Discount	On above	5	89		
	27	✓	Expense	Rent			50	
		✓	Gouffon Transfer Co	Freight & drayage	2825	33	62 / 2725	75 / 73
	31	✓	Balance				99	60
					2825	33	2825	33
Nov	1	✓	Balance		99	60		

Illustration No. 118. Single Entry Cash Book.

§ 298. **Ledger.** This book may be similar to any ledger used with a Double Entry set of books; that is, it may have the regular ledger ruling or any special ruling adapted to the needs of the business. In every case it must be ruled with two money columns, one for the debit amounts, and one for the credit amounts. Some blank book manufacturers make a book which is labeled "Single Entry Ledger." This is ruled like the day book and provided with an index. This form is used when the day book and cash book are omitted, and the transactions entered direct in the ledger.

We make the statement about any desired ruling and the explanation of the stock "Single Entry Ledger" to show the student that there is really no such book as a single entry ledger, but that any form of ledger may be used. The words "Double Entry Ledger" and "Single Entry Ledger" are printed on stock books to distinguish between the two different rulings, and not because they are really the ledgers to be used in the methods named.

TRANSACTIONS FOR OCTOBER.

TO THE STUDENT. You will record the following transactions in the Single Entry day book and cash book and post to the ledger when instructed. Accounts will be kept only with Notes Receivable, Notes Payable, C. W. Ogden Capital, and persons from whom merchandise is purchased on time, and those to whom merchandise is sold on time. When an account is affected that is not given above, write the name of the account and place a check mark in the L. F. column to indicate that it is not to be posted.

1. C. W. Ogden invests $1,500.00 in the retail hardware business.

Enter in the cash book as shown in illustration No. 118.

2. Bought W. H. LaRue's entire hardware stock for $2,250.00, paying cash $1,000.00, two notes of $500.00 each, due in 60 and 90 days, balance to be paid before November 1st.

Enter in the day book and cash book as shown in illustrations Nos. 117 and 118.

3. Bought from Belknap Hardware Co., Louisville, on account, merchandise per invoice of this date, $150.00.

Enter in the day book as shown in illustration No. 117.

Sold C. G. McClure, City, 1 Eureka Stove, $25.00; 5 kegs 8d Nails at $3.50; University School, University Park, 1 doz. Superior Heating Stoves at $13.50; 130 feet of Stove Pipe at 10c.

Enter in the day book as shown in illustration No. 117.

4. Bought from Graham Paper Co., St. Louis, roofing paper per invoice of the 2d, $196.42; terms, 3/10, n/30.

The terms indicate that 3% may be deducted if payment is made within ten days; and if not, the full amount is due in 30 days.

5. Paid Gouffon Transfer Co. $14.87, freight and drayage on above goods.

Enter in the cash book as shown in illustration No. 118. No account is kept with Freight and Drayage, hence the check mark (✓) in the L. F. column.

6. Sold C. J. McDaniels, City, 1 Gas Stove, $3.50; 1 Hammer, 75c; 2 No. 4 Simmond Saws, at $1.00; 1 Daisy Feed Cutter, $14.00.

Paid W. H. LaRue $150.00 on account, and employees wages to date. $65.40.

Post to the ledger. All amounts in the second column of the day book are posted to the debit or credit side of the account written on the same line with them; the debit or credit is indicated by "Dr." or "Cr." Post each amount in the first column of the cash book to the credit side of the account written on the same line with it, unless it has a check

mark in the L. F. column. Post each amount entered in the second column of the cash book to the debit side of the account written on the same line with it, unless it has a check mark in the L. F. column. Allow one-fifth of a page for each account.

8. Bought from American Hardware Co., Cincinnati, merchandise per invoice of the 6th, $264.75; terms, 5/10, n/60.

9. Sold R. R. Oglesby & Co., 100 gal. Lucas Paint at $1.35; 25 kegs Assorted Nails at $3.65; 15 gal. Varnish at $2.00; 3 doz. Locks at $4.25

10. Received cash from Judson Harmon for 5 kegs Nails at $3.50, and from University School in full of account.

11. Paid electric light bill, $13.60; phone rent, $6.00, and stamps, $5.00.

Sold Ormendorff Bros., 1 Eureka Buggy, $70.00. City Electric Co., 2 doz. Shovels at $8.50 per doz; 6 doz. Picks at $7.00; 4 Scrapers at $9.00; 5 Locks at 25c.

12. Bought from C. M. McClung & Co., Chicago, merchandise per invoice of the 10th, $136.42; terms 60 days. Bought from Johnston Paint Co., City, 10 gal. Atlas Paint at $1.25.

13. Paid Graham Paper Co. amount due, less discount.

Enter in the cash book; debit the Graham Paper Co. with the full amount of the invoice in the second column, and on the line below, write "Discount" and enter the amount in the first column. Unless this is done, their account might be debited with the net amount of cash only, in which case it would not balance.

Sold M. B. Arnstein, City, 10 kegs 8d Nails at $3.55; 50 gal. Lucas Paint, at $1.35.

Sold Bean, Waters & Co., City, 120 lbs. White Lead at 35c; 1 No. 4 Simmond Saw, $1.00.

Withdrew $50.00 for private use.

Paid employees' salaries for the week, $86.45; Gouffon Transfer Co., $32.65, freight and drayage to date.

Post from the day book and cash book as instructed on the 6th, and check posting from the 1st to the 6th.

15. Collected from the following parties: C. G. McClure, $42.50; C. J. McDaniels, $10.00; Ormendorff Bros., $50.00; City Electric Co., $70.00.

Sold C. G. McClure, 1 Eureka Buggy, $70.00; 1 Old Hickory Wagon, $57.50. H. O. Nelson, 200 lbs. White Lead at 35c; 10 gal. Atlas Paint at $1.60; 10 rolls Roofing at $2.65.

16. Paid American Hardware Co., $175.00 on account.

This is subject to 5% discount as per terms. Be sure you charge them with the correct amount, which will be more than that paid.

Sold Central Business College, City, 1 I. X. L. Heater, $74.00; 20 gal. Floor Varnish at $2.50; 6 gal. Lucas Paint at $1.35; 3 Paint Brushes, $1.90.

17. R. R. Oglesby & Co. gave us their note due in 30 days for $200.00, to apply on account.

Note that this transaction involves a debit and a credit. Enter in the day book.

Bought from Simmonds Hardware Co., St. Louis, merchandise per invoice of the 11th, $254.78; terms, 60 days.

18. Sold C. G. McClure, 500 lbs. White Lead at 35c; 35 kegs Assorted Nails at $3.65; 3 kegs 10d Nails at $3.25. W. R. Austin, Wilmington, 3 gal. Varnish at $2.00.

Bought from Graham Paper Co., roofing paper per invoice of the 15th, $136.49; terms, 3/10, n/30.

19. Accepted C. M. McClung & Co's., 60-day draft, in full of account.

Note that this transaction requires a debit and a credit. Enter in the day book.

Paid W. H. LaRue $50.00 on account.

Sold Ormendorff Bros., 100 rolls Faultless Prepared Roofing at 95c. W. H. Pedigo, Danville, 1 Old Hickory Wagon, $57.50; 5 kegs 10d Nails at $3.50; 100 lbs. White Lead at 35c; 1 Pocket Knife, 25c.

20. Bought from Philadelphia Hardware Co., Philadelphia, merchandise per invoice of the 18th, $234.75; terms, 4/10, n/30.

Received check from A. David in payment for 200 rolls American Prepared Roofing at 77½c.

Withdrew $75.00 for private use; paid employees to date, $92.75.

Post from the day book and cash book as instructed on the 6th, and check posting from the 6th to the 13th.

22. Collected from customers as follows: M. B. Arnstein, in full; Bean, Waters & Co., in full; C. G. McClure, $100.00; Central Business College, $100.00.

Discounted R. R. Oglesby & Co.'s note at the bank, receiving credit for the face value, less $3.00 discount.

Enter the face of the note in the first column and the discount in the second column of the cash book.

23. Sold University School, 42 rolls Paraflint Roofing at $2.45; 1 Hammer 85c.

Paid W. H. LaRue balance due him.

24. Bought from American Hardware Co., merchandise per invoice of the 22d, $186.75; terms, 5/10, n/60.

Sold Darby & Ragland, Dallas, 50 kegs Assorted Nails at $3.55; 150 lbs. White Lead at 35c; 1 Hatchet, 75c. City Electric Co., 1 American Buggy, $75.00.

25. Sent Graham Paper Co., a check in full of account.

Darby & Ragland settled their account in full, less 2%, per contract.

W. H. Pedigo gave us his note due in 30 days in full of account.

26. Paid Belknap Hardware Co. $75.00 on account.

Bought from Standard Hardware Co., Cincinnati, merchandise per invoice of the 23d, $62.75; terms, 60 days.

27. Sent Philadelphia Hardware Co. a New York Exchange in full of account, less discount. The bank charged 50c for issuing the exchange.

Sold H. O. Nelson, 50 rolls Paracote Roofing at $2.10.

Paid employees to date, $86.27; rent for the month, $50.00; Gouffon Transfer Co., $62.75, freight and drayage to date.

29. Received from H. O. Nelson a 60-day note in full of account.

30. Bought from Chatfield & Woods, City, merchandise per invoice of the 27th, $169.25; terms, 3/10, n/60.

31. Have decided to change the books from Single to Double Entry. Post and check all items to date, and make a Statement of the Business using the following inventories: Merchandise in stock, $2565.87; Office Equipment consisting of desks, chairs, safe, etc., $200.00. When you have completed the statement, make the proper entry to change the books from Single to Double Entry.

Close the ledger as instructed in § 300, and make the opening entry in the journal to change to Double Entry as explained in § 301 and shown in illustration No. 120. When this is completed, post the items to the ledger, take a trial balance and present all books for approval.

§ 299. Single Entry Statement. The net gain or loss can always be ascertained whether the books are kept by Single Entry or Double Entry. If kept by Double Entry, the gain is ascertained by making the Financial, Trading, and Profit and Loss statements, and is not accepted as correct until the results as shown by these statements agree. Since only those accounts showing a resource or a liability appear on the Single Entry ledger, the net gain can be ascertained by making the Financial statement, but there is no means of proving that it is correct.

To make a Single Entry statement proceed as follows: *First*, ascertain the value of property on hand by taking an inventory. *Second*, list all the resources and liabilities. As nothing but resource or liability accounts are kept, all the debit balances are resources, and all the credit balances, except the investment, are liabilities. *Third*, ascertain the difference between the resources and liabilities; this is the present worth of the business. If it is more than the *net* investment, there is a gain; if less, a loss.

The above proves that Single Entry bookkeeping answers every purpose if the bookkeeper is accurate, but that it is a very poor method if the bookkeeper is inaccurate. Illustration No. 119 shows the correct form of Single Entry statement.

§ 300. Closing the Ledger. As all accounts in the ledger except the proprietor's Capital account show a resource or a liability, this is the only one to close. It is closed in the same manner as the proprietor's Capital account in Double Entry, as explained in § 34, ¶10. The gain is entered on the credit side, or the loss on the debit side, with red ink, the account ruled with single and double red lines, footed in black ink, and the "Present Capital" brought down in black ink on the credit side.

§ 301. Changing from Single to Double Entry. When it is desired to change the books from the Single Entry method to that of Double Entry, it is necessary to make a statement of the business, and close the ledger, as explained in §§ 299 and 300. A journal entry is made from this statement, debiting all accounts that show a resource, and crediting those showing liabilities, and the proprietor for the investment. This journal entry will balance, since the total liabilities, plus the present capital of the proprietor equals the resources. When the accounts are opened in the ledger, write the word "Inventory" in the explanation column of those accounts which were not kept in the Single Entry ledger. In this set these are Machinery, Inventory, or the account to represent printing stock on hand, Office Equipment, and Cash. After all the accounts are opened in the ledger, a Trial Balance must be taken so that the bookkeeper may be sure his books are in balance.

SINGLE ENTRY STATEMENT, OCTOBER 31, 191

RESOURCES.				
Cash.	99	60		
Inventory (Mdse. in stock),	2565	87		
Notes Receivable,	327	75		
C. G. McClure,	340			
University School,	103	75		
C. J. McDaniels,	10	25		
R. R. Oglesby & Co.,	69			
City Electric Co.,	101	25		
Ormendorff Bros.,	115			
Central Business College,	34			
W. R. Austin,	6			
Office Equipment (Inventory)	200			
Total Resources,			3972	47
LIABILITIES.				
Notes Payable,	1136	42		
Belknap Hardware Co.,	75			
American Hardware Co.,	267	29		
Johnston Paint Co.,	12	50		
Simmonds Hardware Co.,	254	78		
Standard Hardware Co..	62	75		
Chatfield & Woods,	169	25		
Total Liabilities,			1977	99
C. W. Ogden's present capital,			1994	48
C. W. Ogden's net investment,			1375	
C. W. Ogden's net gain,			619	48

Illustration No. 119. Single Entry Statement.

November 1, 191

Cash		99 60	
Inventory		2565 87	
Notes Receivable		327 75	
C. G. McClure		340	
University School		103 75	
C. J. McDaniels		10 25	
R. R. Oglesby & Co.		69	
City Electric Co.		101 25	
Ormendorff Bros.		115	
Central Business College		34	
W. R. Austin		6	
Office Equipment (Inventory)		200	
	Notes Payable		1136 42
	Belknap Hardware Co.		75
	American Hardware Co.		267 29
	Johnston Paint Co.		12 50
	Simmonds Hardware Co.		254 78
	Standard Hardware Co.		62 75
	Chatfield & Woods		169 25
	C. W. Ogden, Capital		1994 48
Resources and Liabilities at the beginning of the business.			

Illustration No. 120. Journal Entry to change from Single to Double Entry.

QUESTIONS.

1. Define Single Entry bookkeeping. (§ 293.)
2. What class of accounts are usually kept? (§ 293.)
3. When does a transaction have a debit and credit? (§ 295.)
4. Can you explain why there is really no such method as single entry? (§ 293.)
5. Compare the single entry and double entry method. (§ 294.)
6. Name some of the advantages of double entry. (§ 294.)
7. What blank books are usually used in a single entry set? (§ 295.)
8. Define a single entry day book. (§ 296.)
9. Define a single entry cash book. (§ 297.)
10. Define a single entry ledger. (§ 298.)
11. Distinguish between the stock "Single Entry" and "Double Entry" ledgers. (§ 298.)
12. What statement can be made from a single entry ledger? (§ 299.)
13. Describe the method of making this statement.
14. Why is it that the bookkeeper can not prove the correctness of a single entry statement? (§ 299.)
15. Describe the method of closing the single entry ledger. (§ 300.)
16. Describe the method of changing a set of books from single entry to double entry. (§ 301.)
17. What will the journal entry required to make the change show? (§ 301.)
18. Does the bookkeeper who keeps his books by the single entry method have any means of proving the correctness of the work?
19. Would single entry be satisfactory in a business where a large number of transactions must be recorded?
20. Which method do you think is best?
21. Give three reasons for your answer.

PRODUCE AND COMMISSION BUSINESS.

§ 302. **The Object of this Set** is to teach the student the nature of the commission business, and give him an idea of the best methods of keeping Consignment accounts. While there is not as much commission business done today as formerly, yet the student should understand this business and the accounts relating to it. The policy with merchants today is to buy all articles sold, and thus get the profit of the change in market prices. The larger part of the commission business is confined to fruits and vegetables, and some classes of commodities that require large investments to market. Early vegetables and fruits are grown extensively in the South, and marketed in the large cities throughout the United States. Owing to the nature of the product, it is not practical for the merchant to buy large quantities and place them in stock for sale. If the grower sends them to him on commission, he can dispose of them to the advantage of both, and in case they spoil before being sold, he does not lose all of his profit. However, there is a great demand for fruits and vegetables, and many commission merchants keep agents in the territory where these are grown, purchase them outright, and assume the risk of selling them. Cotton and some classes of grain are sometimes handled on commission, on account of the large amount of money required to place the articles on the market. The market price of these products is continually changing, and a change of a few points might mean bankruptcy to the merchant who carried the required amount in stock. By handling on commission, the loss or gain on account of a change in the market price is distributed among many.

When any class of merchandise is handled on consignment, the commission merchant provides storage room for the stock and undertakes its sale. He expects the owner to pay all charges, which include freight, drayage, insurance, storage, and his commission for making the sale. He solicits the orders, ships the goods and makes collections. Until the commission merchant has sold the goods, they remain in possession of the owner, and the merchant is responsible to him for them. After they have been sold, no matter whether the sale is for cash or credit, the commission merchant becomes responsible for the value of the sale, less the charges. After the goods have been sold, or at

stated times, the commission merchant renders the owner a statement, showing the sales, charges, and the net amount due him; this is usually remitted at the time the statement is sent. This statement is known as an Account Sales. (§ 221.)

NOTE.—The commission merchant may carry a stock of merchandise which he has purchased for sale. This is usually of a different nature from that handled on consignment. It is not good business policy for a commission merchant to carry in stock goods of the same nature as those handled on consignment.

§ 303. **Books Used.** The books used in this set are the journal, sales book, cash book, general ledger, and consignment ledger. These are described in §§ 304, 305, 306, 307, and 308, and in illustrations Nos. 121-125.

§ 304. **Journal.** The journal contains three money columns; two for debits, and one for the credits. The first is for the general ledger debits, the second for the consignment ledger debits, and the third for the general ledger credits. When an entry requires an amount to be charged to an account in the consignment ledger, the debit amount is entered in the second (Consignment Ledger Dr.) column, and the credit amount or amounts are entered in the third (General Ledger Cr.) column. If an entry does not affect an account in the consignment ledger, the debit amount or amounts are written in the first, or General Ledger Dr. column, and the credit amount or amounts in the third, or General Ledger Cr. column.

Before recording any transactions, the student should write at the top of the first debit column in his journal, "General Ledger Dr."; second debit column, "Consignment Ledger Dr."; the third column, "General Ledger Cr.". See illustration No. 121.

June 2, 191

L.F.		General Ledger Dr.	Con. Ledger Dr.	General Ledger Cr.
	Purchases	843 34		
	Grainger Bros., 5/29, 2/10; n/30			269 48
	W. H. Davenport & Son, 5/30, 5/10; n/30			187 62
	Donaldson Bros., 5/29, 30 days			386 24
	Invoices received today.			
	4			
	Consignment No. 1		65 15	
	Expense			10
	Selling Expense			10
	Insurance			6 45
	Commission			38 70
	Rendered an account sales. Sent check for net proceeds.			

Illustration No. 121. Commission Journal.

§ 305. **Sales Book.** The object of this book is to contain a record of all credit sales, whether the goods belong to consignments, or from stock. It is ruled with three money columns; the first is for sales of merchandise from our stock; the second, sales of merchandise belonging to consignments, and the third, for the total amount with which the customer is charged. It is necessary to separate the sales of merchandise and consignments, in order that the Sales account in the general ledger may show the amount of sales, and the Consignment account in the general ledger may show the amount of consignment goods sold. When posting from this book, each amount in the third column is posted to the debit side of the person's name written on the same line with it, and each consignment

June 2 191

Con. No.	L.F.	Description		Sales Cr.	Con. Ledger Cr.	Amount Charged
		D. B. Anderson, Clinton				255 30
1		50 Crates Berries	$3.25		162 50	
2		8 Doz Melons	3.60		28 80	
		10 Bu. Onions	.90	9		
		100 " Irish Potatoes	.55	55		
		2				
		Robert Foster & Son, City				287 67
3		10 Baskets Beans	$1.75		17 50	
1		50 Crates Berries	3.25		162 50	
		100 Sacks Corn, 9276#	.65	107 67		
		2				
		C. C. Lotspeich, Dayton				248 75
2		10 Doz Melons	$3.50		35	
3		25 Baskets Beans	1.75		43 75	
3		50 " Peaches	2.50		125	
		50 " Onions	.90	45		
6		50 Crates Cantaloupes	$2.50		125	
		100 Bbls Flour	6.25	625		
				2106 37	1318 09	3424 46
		Sales Cr.		2106 37		
		Consignment Ledger Cr.			1318 09	
						3424 46

Illustration No. 122. Commission Sales Book

account in the consignment ledger is credited with the amount of the sale written on the same line with it. In order that the bookkeeper may know the consignment affected, the number of the consignment is entered on the line with the item, and to the left of the L. F. column. At the end of the month, the Consignment account in the general ledger is credited with the total sales of consignment goods as shown by the total of the second column, and the Sales account is credited with the total of merchandise sold out of stock as shown by the total of the first column. The total of the third column is not posted, because separate accounts are kept in the general ledger with each customer.

Before making an entry in this book, the student must write the name of each column at the top, as follows: first column, "Sales, Cr."; second column, "Consignment Ledger, Cr."; third column, "Amount Charged". See illustration No. 122.

NOTE.—The clerk who makes the sale must indicate on the sales ticket, or order blank, goods sold from stock, and goods sold from consignments. Since each consignment is numbered when received, the goods sold from a consignment are designated by the consignment number. The student will not use the sales tickets in this set, but the printed instructions relative to the sale will designate whether the sale is for goods sold out of stock, or from consignments.

Cash

June — Receipts

Date	L.F	Name of Account	Explanation	General Ledger Cr.		Con. Ledger Cr		Sales Cr	
1		M. B. Thompson, Capital	Investment	3000					
3	✓	Sales	Cash sales					162	97
		Consignment No. 1	100 crts. Ber. @ $3.50			320			
		Consignment No. 2	25 doz. Mel. @ $3.60			90			
		Consignment No. 3	50 bu. Bns. @ $1.75			87	50		
6	✓	Sales	Cash sales					136	95
		Consignment No. 2	9½ doz. Mel. @ $3.50			33	25		
		C. C. Lotspeich	On account	75					
				3075		530	75	299	92
13		Consignment No. 11	100 crts. Cantaloupes @ $2.10			210			
				3397	76	1845	75	1711	30
		Sales Cr	Total cash sales	1711	30			1711	30
		Consignment Ledger Cr	Total	1845	75	1845	75		
				6954	81				

Illustration No. 123. Debit Side of Commission Cash Book.

§ 306. **Cash Book.** The object of this book is to contain, a record of all transactions in which cash is received or paid. It is ruled with three money columns on each side. The first column on the debit side is for all amounts received which affect accounts in the general ledger; the second column is for all amounts received for cash sales of consignment goods; the third column is for cash sales of merchandise. The first column on the credit side is for all amounts paid which affect accounts in the general ledger; the second column is for all amounts paid on account of consignments; the third column is for cash purchases of merchandise. To prove cash, foot the three columns on the debit side, and the three columns on the credit side, placing the pencil footings on the blue line, just below the last entry on each side. The difference between the total of the three columns on the debit side, and the total of the three columns on the credit side is the cash balance.

Before entering any amounts in the cash book, the student must write the name of each column at the top, as follows: Debit side, first column, "General Ledger, Cr."; second column "Consignment Ledger, Cr."; third column, "Sales, Cr.". Credit side, first column, "General Ledger, Dr."; second column, "Consignment Ledger, Dr."; third column, "Purchases, Dr." See illustrations Nos. 123 and 124.

Cash

June — Payments

Date	L.F.	Name of Account	Explanation	General Ledger Dr.	Con. Ledger Dr.	Purchases Dr.
2.		Consignment No. 1	Freight		48 62	
		Consignment No. 2	"		35 50	
		Consignment No. 3	"		62 16	
		Delivery Equipment	Team & Wagon	325		
		Office Equipment	Desk, etc.	125		
	✓	Purchases	Brown Bros.			425
4		Consignment No. 1.	Net proceeds		549 82	
6		Consignment No. 4	Freight		72 12	
	✓	Purchases	Y. B. Skinner			1193 10
		Selling Expense	Payroll	51 25		
				617 50	845 75	1343 10
13.		Purchases	Freight bills	76 54		
				1222 39	1934 46	1618 60
		Purchases Dr.		1618 60		1618 60
		Consignment Led. Dr.		1934 46	1934 46	
	✓	Balance		2179 36		
				6954 81		

Illustration No. 124. Credit Side of Commission Cash Book.

§ **307. General Ledger.** The ruling in this ledger is the same as that shown in the various illustrations of ledger accounts throughout the text, and no additional illustration is necessary. In this set it is to contain all accounts except those with consignments, and one account, "Consignment Ledger" (§ 311), is to represent all of these. This is similar to the Purchases Ledger and Sales Ledger accounts, as explained in §§ 250 and 251. The Trial Balance is made from the general ledger, and will contain all the accounts except those with consignments, and the Consignment Ledger account will show the total of these. The Consignment Ledger account is proved in the same manner as the Sales Ledger account.

§ **308. Consignment Ledger.** The object of this ledger is to contain accounts with consignments. The form is different from any which the student has used. The ledger is made up of white and yellow sheets, arranged alternately. By use of carbon paper, the facts posted to the white sheet will appear on the yellow sheet, thus giving a duplicate record. The object of this is to avoid having to make up the account sales from the facts shown in the ledger. After all the items are posted to the proper place, the account sales (white sheet) can be removed and sent to the consignor. The yellow sheet, which contains a duplicate record, is retained as the ledger account for that particular consignment. A loose leaf ledger is more satisfactory for this arrangement, but as there are very few consignment accounts introduced in this set, the bound ledger will serve to illustrate to the student the form and method of keeping the account. Illustration No. 125 shows the correct form.

Account Sales

June 4, 191

M Southern Fruit & Veg Co. Address Atlanta

Below please find account sales of 200 crates Berries

Sold by **M. B. THOMPSON** *Commission Merchant*

Received June 2d. 191 *and sold for account*

of yourselves

		Sales				
June	2	50 crates Berries @ $3.25	162	50		
		50 " " 3.25	162	50		
	3	100 " " 3.20	320		645	
		Charges				
		Freight Drayage Storage Insurance Commission Advances				
		$48.62 $10.00 $10.00 $6.45 $38.70 $			113	77
		Net Proceeds by Check			531	23

Illustration No. 125. Consignment Ledger.

At the end of each month, or when the Trial Balance is made, the facts in this ledger are proved to be correct by comparing the total balances with the balance of the Consignment Ledger account in the general ledger, in the same manner as the sales ledger and purchases ledger are proved.

§ **309. Accounts Kept in this Set.** The following accounts are kept in this set: Accounts with Customers (§ 29); Accounts with Creditors (§ 30); Owner's Capital account (§ 34); Notes Re-

ceivable (§ 123); Notes Payable (§ 124); Real Estate (§ 132); Interest (§ 135); Fixed Investments (§§ 133, 162, 163, 165, 166); Purchases (§ 154); Sales (§ 155); General Administrative Expense (§ 169); Selling Expense (§ 170); Insurance (§ 171); Shipment (§ 218); Consignment (§ 219); Commission (§ 222); Storage (§ 310); Consignment Ledger (§ 311).

The student is already familiar with all of these except the last two. If he does not remember the various debits and credits that affect the different accounts, he should refer to the paragraphs of the sections given in the references.

STORAGE ACCOUNT.

§ **310. The Object of this Account** is to keep a record of all amounts charged to the owner of the consignment goods, for space in the warehouse or stock room in which to store his merchandise. It is really a part of the General Administrative Expense account, because amounts credited to it offset the amounts paid for rent. The method of conducting the business determines the method of keeping this account. The debits and credits below refer especially to this set, which is based on the method used by many commission merchants.

Debit the Storage Account:

¶ 1. For the rent of a special warehouse maintained for consignment goods.

¶ 2. For the proportionate part of the rent of the storehouse, if no special warehouse is maintained.

Credit the Storage Account:

¶ 3. For the amount of storage charged to the owner of goods shipped to us to be sold on consignment.

¶ 4. *The Difference between the two sides of this Account* will show a loss, if the debit side is the larger; a gain, if the credit side is the larger. While it is really a part of the General Administrative Expense account, yet it is best to keep a separate account with Storage, as the amounts charged to consignments are sometimes more than the amounts paid for rent and maintaining the warehouse. The difference appears in the Profit and Loss statement, being listed with the losses if the debit side is the larger, and with gains if the credit side is the larger.

¶ 5. *To Close the Storage Account.* This account is closed when the journal entry to close the ledger has been posted. It is ruled with single and double red lines, and footed in black ink.

CONSIGNMENT LEDGER ACCOUNT.

§ **311. The Object of this Account** is to keep a record of transactions with consignments. It is a controlling account and is proved by checking the balance with the total of the balances of each consignment account in the ledger. The debits and credits are all made at the end of the month, and from a special column in each book of original entry.

Debit the Consignment Ledger Account:

¶ 1. For the total of the Consignment Ledger column in the journal.

¶ 2. For the total of the Consignment Ledger column on the credit side of the cash book.

¶ 3. For the total of the Consignment Ledger column in the sales book.

Credit the Consignment Ledger Account:

¶ 4. For the total of the Consignment Ledger column on the debit side of the cash book.

¶ 5. For any special credits that may be made to consignments in books of original entry that do not have a special column for this account.

¶ 6. *The Balance of this Account* shows a resource, if the debit side is the larger, and a liability, if the credit side is the larger. It represents the various charges and credits to consignment accounts in the consignment ledger. If the amounts credited to the various consignments are greater than the amounts charged to the various consignments, the business owes the consignors the difference. If the various charges to consignments are greater than the credits for goods sold, the owners of the consignments owe the business this amount. If the debit side is the larger, the difference appears with the resources on the Financial statement; if the credit side is the larger, it appears with the liabilities on this statement.

¶ 7. *To Close the Consignment Ledger Account.* This account will balance when account sales have been rendered for all consignments on hand. For this reason it is not closed, unless it is desired to bring the balance down or carry it forward to a new page. When closed under these conditions, the balance is entered in red ink on the smaller side, ruled with single and double red lines, footed in black ink and the balance brought down, or transferred to a new page on the opposite side in black ink. If at any time the account balances, it is ruled with single and double lines and footed in black ink.

TRANSACTIONS FOR JUNE.

TO THE STUDENT. You will record the following transactions in the journal (§ 304), sales book (§ 305) and cash book (§ 306), and post to the general ledger (§ 307) and consignment ledger (§ 308) when instructed. The accounts used are explained in §§ 309, 310 and 311. Be sure you understand these before recording any transactions.

1. M. B. Thompson invests $3,000.00 in the produce and commission business.

See illustration No. 123.

2. Purchased merchandise for the following invoices: Grainger Bros., Clinton, $269.48, dated May 29th; terms, 3/10, n/30. W. H. Davenport & Son, Springfield, $187.62, dated May 30th; terms, 5/10, n/30. Donaldson Bros., Morristown, $386.24, dated May 29th, 30 days.

Enter as shown in illustration No. 121. As explained, credit purchases will be entered in the journal instead of the purchases book.

Received goods for the following consignments, as shown by the shipping invoices: No. 1, Southern Fruit & Vegetable Co., Atlanta, 200 crates of berries. No. 2, Central Commission Co., Jacksonville, 750 watermelons. No. 3, J. J. Archibald & Co., Macon, 200 crates of peaches and 100 baskets of green beans. Gave L. & N. R. R. Co. check for $146.28, in payment of freight, distributed as follows: No. 1, $48.62; No. 2, $35.50; No. 3, $62.16.

Enter each of the three consignments in the consignment ledger, as shown in illustration No. 125. Enter in the same order as given. If the consignment ledger has not been paged, this should be done at once. All future consignments must be entered in numerical order, as the page in the ledger indicates the number of the consignment. Enter the freight charges as shown in illustration No. 124.

NOTE.—In business it is customary to have a special book in which to enter consignments. This is usually termed the receiving book, and is kept so that a complete record of all consignments may be shown.

Gave W. R. Love a check for $450.00; $325.00 to pay for team of horses, wagon and harness, and $125.00 for his office equipment.

Enter as shown in illustration No. 124. Debit Delivery Equipment (§ 166), and Office Equipment (§ 162).

Credit Sales: D. B. Anderson, Clinton, 50 crates of berries (1), $3.25; 8 dozen melons (2) at $3.60; 10 bushel onions at 90c; 100 bushel Irish potatoes at 55c. Robert Foster & Son, City, 10 baskets green beans (3) at $1.75; 50 crates of berries (1) at $3.25; 100 sacks of corn, 9,276 pounds, at 65c per bushel. C. C. Lotspeich, Dayton, 10 dozen melons (2) at $3.50; 25 baskets of green beans (3) at $1.75; 50 crates of peaches (3) at $2.50; 50 bushel onions at 90c.

Enter in the sales book as instructed in § 305 and shown in illustration No. 122.

Gave Brown Bros. check in payment for 1,500 dozen eggs at 22½c, and 400 chickens at 22c.

As these goods are purchased for sale, debit § 154. See illustration No. 124. Reference to § 309 will give the name of those accounts not described in this set.

3. Cash Sales: Merchandise, $162.97; consignments, 100 crates of berries (1) at $3.20; 25 dozen melons (2) at $3.60; 50 baskets green beans (3) at $1.75

Prove cash, and post all amounts from the sales book, journal, debit side of the cash book, and credit side of the cash book. This includes amounts in the first and second columns, but does not include the totals of any columns. Each amount entered in the General Ledger column of the cash book is posted to the general ledger to the account written on the same line with it. Each amount in the second column is posted to the Consignment account in the consignment ledger, as indicated by the number of the consignment. Reserve the first four pages in the ledger for all accounts except those with customers and creditors; these last two mentioned begin with page 5. Allow one-fourth page for each account. M. B. Thompson's Capital account will be entered at the top of page 1.

The consignment accounts in the consignment ledger are opened in regular order beginning with No. 1. When posting to this book, keep a sheet of carbon (carbon side down) between the white and yellow sheet. Illustration No. 125 shows the correct form of a consignment ledger, and the student should refer to this before posting any amounts to this book.

4. Render an account sales to the Southern Fruit & Vegetable Co. for berries received on the 2d. Charge 5c per crate Drayage, 5c Storage, 1% of the net sales, Insurance, and 6% of the net sales, Commission. Send them a check for the net proceeds.

Make the required journal entry for the charges as shown in the second entry in illustration No. 121. By referring to this, you will observe that the consignment is debited, and the accounts representing the charges are credited. Make this entry and post it at once to the consignment in the consignment ledger; also make the entry for the check on the credit side of the cash book and post it. When this is completed, the consignment account will balance. If you have kept the carbon beneath the white sheet as instructed, you will have an exact copy on the yellow sheet. Remove the white sheet on the perforated line and give it to the teacher. This is the account sales.

Selling Expense is credited with the drayage, because the cost of maintaining the delivery equipment is charged to this account. Storage account is credited for the storage as explained in § 310.

Gave R. H. Simmonds & Co. check for $116.25, in payment of premium on insurance policy issued on the first of the month, covering our own merchandise and the consignments on hand. (§ 171.)

5. Credit Sales: Olson Bros., City, 50 dozen eggs at 27½c; 5 dozen melons (2) at $3.60; 10 baskets green beans (3) at $1.75. W. A. Daws & Son, Canton, 5 dozen melons (2) at $3.60; 5 baskets green beans (3) at $1.75; 10 bushel onions at 90c; 25 bushel Irish potatoes at 60c; 50 crates peaches (3) at $2.50. Watson & Moore, Dover, 25 crates peaches (3) at $2.50; 200 sacks corn 18,627 pounds, at 63c per bushel.

6. Received the following goods on consignment as per shipping invoices: No. 4, Southern Fruit & Vegetable Co. 300 crates berries. No. 5, O'Neil Bros., Jackson, 200 baskets green peas. No. 6, C. C. Watson & Bro., Mobile, 100 crates cantaloupes. No. 7, Orr & Jackson, Augusta, 100 crates tomatoes. Gave C. & O. R. R. Co. check for $168.27 in payment of freight on these goods, distributed as follows: No. 4, $72.12; No. 5, $28.46; No. 6, $37.80; No. 7, $29.89.

Cash Sales: Mdse., $136.95; Consignment No. 2, 9½ dozen melons at $3.50.

Cash sales of merchandise are entered in the third (Sales) column (§ 155, ¶ 5), and the consignment goods in the second column (§ 306). Write the description of goods sold in the explanation column of the cash book. When posting to the consignment ledger, always give a description of the goods sold, so that the consignor may check the goods reported sold with his record of the goods consigned.

Gave Y. B. A. Skinner check for 2,500 dozen eggs at 22½c; 600 chickens at 22c; 500 sacks corn, 49,860 pounds, at 56c per bushel.

Received check from C. C. Lotspeich for $75.00, on account.

Paid employees for week, $38.75 (Selling Department); phone rent, $12.50; license for three months, $12.50.

Charge to Selling Expense and General Administrative Expense.

Prove cash; post all items to date, and check the posting for the 1st, 2d, and 3d.

8. Render an account sales for consignment No. 2 received from Central Commission Co. on the 2d. Charge 1c Drayage, ¾c Storage, 1% Insurance, and 6% Commission. Send them a check for the net proceeds.

Sent check to Grainger Bros. in full of account, less discount.

Enter the full amount of the invoice on the credit side of the cash book, and the amount of the discount on the debit side. The Merchandise Discount account will represent all discounts received and allowed. Read § 158.

Sold C. W. Swopshire & Co., City, 70 crates peaches (3) at $2.50; 50 crates tomatoes (7) at $2.25; 250 sacks corn, 2,467 pounds, at 62c per bushel.

9. Received check from D. B. Anderson in full of account.

Bought from Short Bros., Cleveland, 500 barrels flour at $5.00, per invoice of the 7th; terms, 4/10, n/30.

Cash Sales: Mdse., $636.42; consignments, 150 crates berries (4) at $2.75; 50 crates tomatoes, (7) at $2.25.

Sent W. H. Davenport & Son check for amount due, less discount.

10. Render an account sales for consignment No. 3. Charge 2c Drayage, 2c Storage, 1% Insurance, 5% Commission. 5 crates peaches were decayed. Send check for the net proceeds.

Make an entry for the charges in the journal, and for the check in the cash book as instructed on the 4th. Post these entries and all other amounts affecting this consignment. When the account balances, remove the white sheet and give it to the teacher. This is the account sales. See illustration No. 125 for form of consignment ledger.

Credit Watson & Moore with 1,000 dozen eggs at 22½c.

Shipped Myers & Michaels, Minneapolis, 100 cases eggs, 30 dozen each (cost 22½c), and 50 coops, 20 chickens each (cost 22c), to be sold on our account and risk.

Goods shipped on consignment are usually billed at the cost price. The bill sent is termed a "Shipping Invoice" The person to whom the goods are sent does not buy them, but he must receive some memorandum so that he can check the shipment when it arrives. Read § 220 for a full description of the shipping invoice and note form given in illustration No. 90. This entry is made in the journal; debit § 218, and credit § 154.

Paid Chas. Goulsby $32.50, for feeding the chickens, shipped to Myers & Michaels (§ 218).

Prove cash; post all items to date, and check the posting for the 4th, 5th, and 6th. Follow previous instructions.

11. Credit Sales: C. L. Wiswell & Son, Cedartown, 50 baskets green peas (5) at $1.65; 50 barrels flour at $6.50; 20 bushels meal at 70c. G. J. Ashe, City, 10 cases eggs, 30 dozen each, at 27c; 25 crates cabbage, 2,360 pounds, at 4½c. Wilkerson & Wilkerson Chicago, 50 crates cantaloupes (6) at $2.50; 500 dozen eggs at 27c; 100 barrels flour at $6.25.

Bought from C. W. Moody & Bro., Cleveland, merchandise per invoice of the 6th, $362.50; terms, net 10 days.

12. Render an account sales for goods belonging to consignment No. 7. Charge 5c a crate Storage, 4c Drayage, 1% Insurance, 6% Commission. Credit their account with the net proceeds.

Follow instructions given on the 4th and 10th. Be sure to post all items relative to the consignment account before removing the white sheet. This includes the entry for the charges and amount credited to their account. If remittance is sent for the net proceeds, cash is credited for the amount paid. If remittance is not sent, the person or firm who

owns the goods represented by the Consignment account is credited for the net proceeds. When collections have not been made for goods sold, the commission merchant usually renders the account sales and debits the consignment account with the net proceeds, remitting the same to the consignor when he has made collecton.

Cash Sales: Mdse., $387.50; consignments, 40 baskets green peas (5) at $1.65; 80 crates berries (4) at $2.80; 50 crates cantaloupes (6) at $2.50.

Accepted Donaldson Bros.' draft at 15 days in full of account.

Render an account sales for consignment No. 6. Charge 5c a crate Storage, 4c Drayage, 1% Insurance, 6% Commission. Send them a check for $100.00, to apply on the consignment, and credit their account with the net proceeds.

Follow instructions given on the first transaction of this date.

Received the following consignments: No. 8, Central Commission Co., 1,000 watermelons. No. 9, J. J. Archibald & Co., 200 crates peaches. No. 10, Consolidated Fruit Co., Savannah, 500 crates tomatoes. No. 11, C. C. Watson & Bro., 200 crates cantaloupes. Gave the Q. & C. R. R. Co. check for $281.29 freight on the above, distributed as follows: No. 8, $62.50; No. 9, $56.75; No. 10, $86.50; No. 11, $75.54.

Robert Foster & Son gave us check for $50.00, and note, dated today due in 60 days with interest, to balance their account.

13. Cash Sales: Mdse., $387.46; consignments, 25 dozen melons (8) at $3.80; 25 crates berries (4) at $2.80; 100 crates cantaloupes (11) at $2.10.

Paid employees (Selling Department) for the week, $38.75; C. B. & Q. R. R. Co., $76.54 for freight on merchandise.

Debit § 170 for amounts paid employees, and § 154 for freight charges. This is freight on merchandise purchased and not consignment goods. When these entries have been made, proceed as follows:

1st. Prove cash, have the teacher approve the balance, and rule the cash book as shown in illustrations Nos. 123 and 124.

2d. Post and check all items to date, including the total of the special columns in the journal, sales book, and all items entered on the debit and credit side of the cash book. Open an account in the general ledger with Consignment Ledger (Read § 310). and debit it with the totals of the "Consignment Ledger" columns in the journal, sales book, debit and credit sides of the cash book. Credit the Sales account for the total of the merchandise sales in the sales book and for the cash sales of merchandise in the cash book. Debit the Purchases account for the cash purchases (total of the third column in the cash book).

3d. Take a Trial Balance. This includes accounts in the general ledger only, as the Consignment Ledger account represents the accounts in the consignment ledger. After the Trial Balance has been made and proved, make a list of the balances on the consignment ledger, and present to the teacher for approval. The difference between the total debit and credit balances must be the same as the difference of the Consignment Ledger account in the general ledger.

15. Received merchandise for the following invoices: Grainger Bros., $327.54, dated June 12th, 3/10, n/30. L. C. Hays & Son, Davenport, $416.65, dated June 9th, net 60 days. Donaldson Bros., $156.24, dated June 13th, net 30 days.

Cash Sales: Mdse., $248.56; consignments, 25 dozen watermelons (8) at $3.80; 45 crates berries (4) at $2.60; 100 crates peaches (9) at $2.40.

Wilkerson & Wilkerson transferred C. W. Dodge's note for $487.65 on account. This note is dated March 29th, due in 90 days, with interest from date. Allowed them accumulated interest.

Enter this in the journal. Debit Interest account with the interest on the face of the note from date to the present time.

Paid bookkeeper's salary for first half of the month, $25.00; stamps and stationery, $10.00; typewriter desk, $15.00; Daily News Co., $12.50 for advertising.

16. Gave J. H. Simpson a check for 2 crates berries purchased on the 15th, which were returned

because they were spoiled. As the consignment was credited for this sale, it would be charged for the check given for the goods returned.

Sold W. H. Rowland & Son, City, 400 crates tomatoes at $2.25, belonging to consignment No. 10. This sale is subject to 3% discount, if payment is made within 5 days.

Paid Short Bros. amount due, less discount.

17. Gave G. D. Davis check for 1,000 dozen eggs at 22½c. (§ 154.)

Discounted Robert Foster's note at the bank, receiving credit for the proceeds, less 5% (per annum) interest.

Enter in the cash book; charge the Interest account with the discount on the note. Read § 135 for an explanation of the Interest account.

Prove cash as instructed, and post all amounts from the 15th to date.

18. Accepted Orr & Jackson's 10-day draft in full of account.

Credit Sales: Watson & Moore, 50 crates tomatoes (10) at $2.25; 40 baskets green peas (5) at $1.65; 50 barrels flour at $6.25; 10 crates of cabbage, 964 pounds, at 4½c. Central Hotel, City, 10 dozen melons (8) at $3.80; 20 crates cantaloupes (11) at $2.00.

Received checks in full of account from C. L. Wiswell & Son, and Olson Bros.

Gave C. B. & Q. Ry. check for $265.48, in payment of freight bills to date (§ 154).

Drew at 10 days on Wilkerson & Wilkerson for $200.00 to apply on account. Sent the draft to the First National Bank for acceptance and collection. Make a note of this transaction in the journal. The entry will not be made until the bank reports the draft accepted.

19. Render an account sales for consignment No. 4. Charge 5c a crate Drayage, 4c Storage, 1% Insurance, 6% Commission. No commission will be charged on the 2 crates returned. This refers to the commission only. Send them a check for $250.00, to apply on the consignment, and credit the consignor's account for the net proceeds.

Watson & Moore returned 5 crates of tomatoes which were spoiled (§§ 219 and § 29).

C. W. Swopshire & Co. settled their account by note for $175.00, dated today, due in 30 days, and check for the balance.

When an account is settled by note and check, the entry may be made in the journal or cash book. It is always best to make these entries in one book. If the entry is made in the cash book, write the name of the customer and the full amount of his account on the debit side, and on the credit side write Notes Receivable and the face of the note. The difference between the entry on the debit side, and that on the credit side is the amount of the check which does not appear on the cash book. If the entry is made in the journal, debit Notes Receivable for the face of the note, Cash for the amount of the check, and credit the customer for the amount of his account. On the debit side of the cash book, write his name and, enter the amount of the cash in the first column. Place a check mark at the left of his name, to show that the transaction has been made in the journal and posted from there. It is necessary to enter the transaction on the debit side of the cash book, in order to debit cash, as there is no Cash account in the ledger. The student will make his entry in the journal, which is the method last explained. Place a check mark to the left of "Cash" in the journal.

20. Received the following consignments as per shipping invoices: No. 12, Orr & Jackson, 200 crates tomatoes. No. 13, W. H. Richardson & Bro., Charleston, 300 crates berries. No. 14, Southern Fruit & Vegetable Co., 200 baskets peas. Gave the K. C. S. R. R. Co. check for $136.50 to pay for freight, distributed as follows: No. 12, $34.65; No. 13, $50.40; No. 14, $51.45.

Cash Sales: Mdse., $476.42; consignments, 3 dozen watermelons (8) at $3.80; 75 crates peaches (9) at $2.35; 50 crates tomatoes (10) at $2.25.

Received check from W. H. Rowland & Son in full of account, less 3% discount. As these were all consignment goods, you will charge the discount to consignment No. 10.

Enter the discount in the second column on the credit side of the cash book.

Render an account sales for consignment No. 10. Charge 2c per crate Drayage, 2c Storage, 1% Insurance, 6% Commission. Send them a check for the net proceeds.

Paid employees for the week (Selling Department), $45.50.

Prove cash; post all items to date, and check the posting for the 15th, 16th and 17th.

22. The bank reports the 10-day draft drawn on Wilkerson & Wilkerson accepted on the 19th.

Myers & Michaels sent an account sales of Shipment made on the 10th. and inclosed check for $984.75, in payment of the net proceeds.

Enter this in the cash book, crediting Myers and Michaels Shipment for the amount of the check.

Credit Sales: D. L. Carpenter & Son City, 70 baskets green peas (5) at $1.65; 50 barrels flour at $6.25; 150 sacks corn, 14,621 pounds, at 63c per bushel. Watson & Moore, 100 crates berries (13) at $2.75; 25 barrels flour at $6.25; 20 crates cabbage, 1,864 pounds, at 4½c. Wilkerson & Wilkerson, 50 crates tomatoes (12) at $2.00; 100 barrels flour at $6.00; 200 sacks corn, 20,006 pounds, at 63c per bushel.

Gave G. L. Craft check for 75 cases eggs, 30 dozen each, at 22½c. and 500 sacks corn, 49,864 pounds, at 56c per bushel.

23. Shipped Geo. W. Potter & Son, New York, 100 cases eggs, 30 dozen each, (cost 22½c) to be sold on our account and risk.

See instructions under the third transaction of the 10th.

Render an account sales for consignment No. 5. Charge 3c Drayage, 2c Storage, 1% Insurance, 6% Commission. Credit the consignor's account with the net proceeds.

Sent Grainger Bros. check for amount due, less 3% discount.

Enter in cash book according to previous instructions.

24. Cash Sales: Mdse., $387.42; consignments, 20 dozen watermelons (8) at $3.80; 25 crates peaches (9) at $2.25; 50 crates tomatoes (12) at $2.00; 100 baskets peas (14) at $1.55.

Accepted C. C. Watson & Bro.'s 5-day draft for $200.00, on account of Consignment No. 11.

Received the following consignments per shipping invoices: No. 15, Central Commission Co., 1,000 watermelons. No. 16, J. J. Archibald & Co., 200 crates peaches. No. 17, C. C. Watson & Bro., 200 crates tomatoes. Gave the Q. & C. R. R. Co. check for $173.31 to pay freight, distributed as follows: No. 15, $52.50; No. 16, $45.27; No. 17, $75.54.

Prove cash; post all items to date, and check posting for the 22d, 23d, and 24th.

25. Render account sales for Consignments Nos. 8 and 9. On the former charge 1c Drayage, 1½c Storage, 1% Insurance, 6% Commission; and on the latter 4c Drayage, 5c Storage, 1% Insurance, 6% Commission. Four watermelons belonging to Consignment No. 8 were broken in handling, and eaten by the bookkeeper. No drayage or storage is charged on these. Send a check for the net proceeds.

Borrowed $1,000.00 at the bank on our 90-day note, and received credit for the proceeds, less 8% (per annum) discount.

26. Received the following invoices: C. W. Moody & Bro., $209.87, dated June 24th, net 10 days; Short Bros., $400.00, dated June 25th, 4/10, n/30.

Cash Sales: Mdse., $314.75; consignments, 80 crates cantaloupes (11) at $2.00; 100 crates tomatoes (12) at $1.90.

Received check from W. A. Daws & Son, in full of account.

27. Received check from C. W. Dodge, in payment of note and interest due today.

Credit Sales: W. A. Davis & Son, city, 50 baskets peas (14) at $1.65. D. B. Anderson, 25 dozen watermelons (15) at $3.00; 25 crates peaches (16) at $2.25; 100 sacks corn, 9,864 pounds, at 63c.

Gave W. W. Scarborough check for 100 cases eggs, 30 dozen each, at 20½c. Ship these to Myers & Michaels to be sold on our account and risk.

Enter the purchase in § 306, and the shipment in § 304.

Gave the bank a check in payment of 15-day draft, drawn by Donaldson Bros. on the 12th.

Gave C. W. Moody & Bro. check in full of invoice received on the 11th. Received check from the Central Hotel in full of account.

Paid employees for the week (Selling Department), $44.75.

Prove cash, post, and check the posting for the 25th, 26th, and 27th.

29. Render account sales for Consignments Nos. 11 and 12. Charge 5c a crate Storage, 4c Drayage, 1% Insurance, 6% Commission on each consignment. Credit each consignor's account with the net proceeds.

Bought the building in which we are doing business, and the lot on which the same is situated, paying $5,000.00, as follows: Cash, $2,000.00, and three notes of $1,000.00 each, due in 6, 12 and 18 months, respectively, each with interest from date.

Charge the Real Estate account with the value of the purchase. Enter the cash payment in the cash book, and the notes in the journal.

L. B. Thomas reported that 10 crates of the tomatoes shipped him (cash sale) on the 24th were spoiled, and asked us to send him 10 crates in place of these, which has been done. These tomatoes belonged to Consignment No. 12, and are replaced from Consignment No. 17. As we have already rendered an account sales for Consignment No. 12, it is necessary to charge the consignor's account with these 10 crates.

Sold Armstrong Bros., City, on account, 25 crates tomatoes (17) at $2.00; 50 baskets peas (14) at $1.65; 100 bushels Irish potatoes at 65c.

The bank sent check in payment of Wilkerson & Wilkerson's acceptance, less 50c collection charges.

30. Paid 5-day draft drawn by C. C. Watson & Bro., and accepted on the 24th. Withdrew $200.00 for private use (§ 34).

Received the following consignments: No. 18, O'Neil Bros., 200 crates peas; No. 19, Geo. L. Atkinson & Co., Aiken, 100 baskets cucumbers. Gave the C. R. I. & P. R. R. Co. check for $50.57 for freight on the above, distributed as follows: No. 18, $28.46; No. 19, $22.11.

Cash Sales: Mdse., $529.64; consignments, 25 crates berries (13) at $2.75; 50 baskets cucumbers (19) at $1.90.

Received an account sales for the eggs shipped to Geo. W. Potter & Son on the 23d. They sent check for $927.48, in payment of net proceeds.

Paid bookkeeper's salary for last half of the month, $25.00; M. B. Thompson, services for the month, $100.00; Webb Livery Co., $35.00, board for horses.

Follow instructions given below:

1st. Make journal entries as follows: One for rent for the month, $125.00 (debit § 169; credit § 133); one for the 5% depreciation on office equipment (debit § 169, ¶ 5; credit § 163, ¶ 4); 5% depreciation on delivery equipment (debit § 170, ¶ 5; credit § 167, ¶ 4;) and $\frac{1}{12}$ the amount paid for insurance (debit § 169, ¶ 8; credit § 171, ¶ 3); one for the value of stamps, stationery, etc., on hand, $36.50 (debit § 194, ¶ 1; credit § 169, ¶ 11); one for $22.65 due employees in the Selling Department (debit § 170, ¶ 1; credit § 196, ¶ 2.) The goods shipped to Myers & Michael on the 27th have not been sold, hence their value will appear among the Resources on the Financial statement.

2d. Prove cash, have the balance approved by the teacher, and rule the cash book; post all items to date, including the totals of the special columns, and check all the posting to date.

3d. Take a Trial Balance. This is made from the accounts in the general ledger. When it balances, prove the accounts in the consignment ledger, by comparing the total of the balances with the balance of the Consignment Ledger account in the general ledger.

4th. Make the Financial, Trading, and Profit and Loss statements. The value of salable merchandise on hand is $621.75.

When these statements have been approved by the teacher, close the ledger by journal entries, and take a Proof Sheet to show that it is in balance. Present all books to the teacher for approval.

QUESTIONS.

1. Who is a commission merchant? (§ 217.)
2. What accounts are peculiar to a commission business? (§§ 218, 219, 222, 310, and 311.)
3. Name the blank books to be used in the Commission set. (§ 303.)
4. Describe the journal. (§ 304.)
5. Describe the sales book. (§ 305.)
6. Describe the cash book. (§ 306.)
7. Explain the method of proving cash with this form. (§ 306.)
8. How does the bookkeeper know whether the goods sold belonged to regular stock or consignments? (§ 305, Note.)
9. Describe the general ledger. (§ 307.)
10. Describe the consignment ledger. (§ 308.)
11. Name the accounts to be kept in this set. (§ 309.)
12. Define the Storage account. (§ 310.)
13. For what is it debited? (¶¶ 1 and 2.)
14. For what is it credited? (¶ 3.)
15. Describe the method of closing. (§ 310.)
16. Define the Consignment Ledger account. (§ 311.)
17. For what is it debited? (¶¶ 1—3.)
18. For what is it credited? (¶¶ 4 and 5.)
19. Describe the method of proving the consignment ledger with the Consignment account. (§ 311.)
20. Define a shipping invoice. (§ 220.)
21. Define an account sales. (§ 221.)
22. Why does the consignee send the consignor an account sales?
23. When does the commission merchant become responsible for the value of goods belonging to a consignment? (§ 217.)
24. Why is it best policy for a merchant to buy the goods which he sells, instead of handling them on consignment? (§ 302.)
25. What class of goods are usually sold on consignment? (§ 302.)

INDEX.

LIST OF ILLUSTRATIONS.